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Alberta Legislature

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Alberta Legislature

Office of the Auditor General

Mr. R. Hierath, MLA
Chairman
Standing Committee on
Legislative Offices

I have the honour to transmit herewith my Report to the Legislative Assembly for the fiscal year ended March 31, 1993, to be laid before the Legislative Assembly in accordance with the requirements of section 19(4) of the Auditor General Act.

Donald D. Salmon
FCA
Auditor General

Edmonton, Alberta
December 31, 1993

TABLE OF CONTENTS

SECTION		PAGE
1	INTRODUCTORY COMMENTS	1
2	AUDIT COVERAGE, OBSERVATIONS AND RECOMMENDATIONS	
	EXECUTIVE COUNCIL	9
	TREASURY	23
	ADVANCED EDUCATION AND CAREER DEVELOPMENT	45
	AGRICULTURE, FOOD AND RURAL DEVELOPMENT	63
	COMMUNITY DEVELOPMENT	75
	ECONOMIC DEVELOPMENT AND TOURISM	77
	EDUCATION	85
	ENERGY	89
	ENVIRONMENTAL PROTECTION	97
	FAMILY AND SOCIAL SERVICES	103
	FEDERAL AND INTERGOVERNMENTAL AFFAIRS	121
	HEALTH	123
	JUSTICE	145
	LABOUR	151
	MUNICIPAL AFFAIRS	153
	PUBLIC WORKS, SUPPLIES AND SERVICES	157
	TRANSPORTATION AND UTILITIES	159
	LEGISLATIVE ASSEMBLY	165
	IRRIGATION DISTRICTS	167
	SECTION 12(b) AUDITS	169

TABLE OF CONTENTS

SECTION **PAGE**

3 REPORTING PROCESS, RESERVATIONS AND PUBLIC ACCOUNTS

REPORTING PROCESS 171

RESERVATIONS IN AUDIT REPORTS ON FINANCIAL STATEMENTS 172

SECTION 18 REPORT 173

PUBLIC ACCOUNTS 174

4 THE AUDIT OFFICE

LEGISLATIVE MANDATE 177

MISSION 180

ACCOUNTING PRINCIPLES AND AUDITING STANDARDS 181

ORGANIZATION OF THE AUDIT OFFICE 183

AUDITOR GENERAL ACT 187

INDEX OF ENTITIES 195

Report For The Year Ended March 31, 1993

This report is issued pursuant to section 19 of the Auditor General Act. It is my eighth annual report to the Legislative Assembly and the fifteenth such report issued by the Auditor General of Alberta.

The report is for the year ended March 31, 1993. Some of the observations and recommendations it contains resulted from audit work carried out since that date.

Auditor General Act

The Auditor General Act requires that I perform financial audits to provide assurance that financial statements are fairly presented. In addition to adding credibility to financial statements, I also make recommendations to improve accounting and reporting practices, and rectify non-compliance with legislation.

The Auditor General Act also requires me to identify systems that could be improved. When the resources of my Office are directed to systems auditing every effort is made to identify areas where improvements can be made. This report contains recommendations which I believe will help the government improve the systems that relate to revenue, expenditure, assets, liabilities, and the measurement and reporting of effectiveness.

Scope of work

The scope and extent of audit work completed for 1992-93 is described in section 2 of this report.

For the specific financial and management control systems examined, section 2 of this report contains the significant improvements that the systems audits indicated were necessary.

For every financial statement audited, I have issued an Auditor's Report. Section 3 contains information on those auditor's reports that contained reservations.

For those transactions and activities examined in financial statement audits, apart from the instances of non-compliance described in this report I am satisfied that they complied, in all significant respects, with relevant legislative authorities. The instances of non-compliance reported herein should not be used as a basis for drawing conclusions as to compliance or non-compliance with respect to matters not examined.

Improving The Financial Administration Of The Province

Introduction

My 1991-92 annual report was released on February 17, 1993. In it, I stated that the government could significantly improve its accountability by publicly defining what it proposed to do, and then explaining what was achieved through the use of public funds. I said that benefits would begin as soon as the process of change was started. Even though some improvements will take several years to plan, design, and implement fully, the key, surely, was to start. The Wright brothers were wise to attempt to fly at Kitty Hawk. They would never have got off the ground if they had first insisted on designing an intercontinental passenger jet plane.

I think the analogy is relevant because measuring and reporting on the effectiveness of Provincial programs is in its infancy. In order to progress, everyone from a program manager to a member of the public needs to know the cost of each service provided. Knowing the cost of outputs is essential when budgeting services or assessing performance. The government's financial systems need to be improved so that costs and outputs are always linked.

I am pleased to report that the process of change has definitely started. In my opinion, the government's action in response to my main recommendations has been commendable.

Program effectiveness

In my 1991-92 annual report, I reported that government departments and Provincial agencies are generally not assessing and reporting on their effectiveness. Consequently, there was very little public information on what was intended and achieved as a result of spending public resources.

I recommended that the government establish a system for promoting effectiveness measurement. On May 10, 1993, the government formally accepted this recommendation. The government stated that "Ministers will require most provincial agencies and Crown-controlled organizations to submit three-year plans."

In the May 1993 budget document, the government asked the Auditor General to provide assistance in establishing benchmarks to help all departments and agencies compare their performance against other equivalent organizations. The government also asked the Auditor General to conduct sector-based audits covering such areas as health, education, social services and agriculture.

The Provincial Treasurer indicated, in his Budget Update Speech on September 8, 1993, that departments were working on business plans

which outline long-term goals and program objectives and specific means to measure results and performance. I believe the initiative is sound. Publicly defining what one proposes to do is critical to improved accountability.

Work of the Audit Office

As noted above, the government asked for assistance in promoting and auditing effectiveness measurement reports.

I believe my job in the effectiveness area is to make recommendations to improve systems so that decision makers are provided with reliable and relevant information. I should encourage management to set relevant benchmarks but it would be inappropriate for me to set them. I should encourage management to measure and report on performance, and I should assess whether management's reports on performance are reasonable and fairly presented. Ultimately, Members of the Legislative Assembly, the Public Accounts Committee, and the public should evaluate performance.

If I measured and reported on performance, I would be assuming management's role. Management would resist such interference on the basis that the auditor was doing its job.

I believe that the best way my Office can assist government departments and agencies is to stress the importance of relating costs to outputs in a way that improves resourcing decisions and enables comparison with equivalent organizations. Once systems have achieved this objective, they can be developed to more comprehensively measure and report on performance. However, the first priority is to establish the cost of outputs.

Cost of outputs

In my view, the costing of outputs is a critical first step to encouraging improvements in efficiency.

Service providers should define what services they are providing and how much the services cost. In all aspects of financial management, from budgeting to reporting, managers should relate costs to outputs. The process should start with budgeting because that is when priorities and resource allocations are determined.

Assessing the benefit of a service is important. Often the benefits are known and understood even though placing a value on them is difficult. This difficulty does not affect the measurement of cost. Measuring the cost side of the cost benefit equation is essential since costs are not generally known and understood. In the absence

of cost information on outputs, few informed decisions on spending can be made.

An illustration of the lack of output costing is the 1993-94 budget of the Department of Advanced Education and Career Development for operating grants to universities in the amount of $492 million. The Department does not know what outputs it is funding. Further, the universities have an imprecise understanding of the cost of their outputs. This inability to relate costs to outputs exists generally throughout the government.

Once the cost of outputs is known, a sound basis will have been established for progressing to a more comprehensive assessment of performance.

Benchmarks

The government indicated in the May 1993 budget document that performance benchmarks will be established. I was asked to assist in establishing benchmarks to help all government departments and agencies compare their performance against that of the best equivalent organizations.

The advantage of a benchmark, such as the average cost of university training for a B.Comm. graduate, is that it enables management to convey performance information in a compact and easily understood form. Not only can a benchmark be used to convey the cost of outputs, such as graduating students, it can also be used to report results, such as a reduction in the rate of unemployment. Benchmarks are also convenient when setting goals and objectives.

In my Office, we have identified outputs as being recommendations in the annual report of the Auditor General and Auditor's Reports on financial statements. We are making good progress in relating our costs to these outputs. As yet, however, our financial statement only reports costs in terms of manpower, supplies and services, and purchases of capital assets. In other words, our financial statement does not attempt to relate costs to outputs. Such reporting is typical in Alberta's public sector.

The reason costs should be associated with outputs is to enable comparisons. The comparison of output costs often leads to improvements in economy and efficiency. For example, if a hospital associated its costs with service categories and procedures, it would know the cost of treating patients by category of health problem. The average cost of performing a particular type of heart surgery could be compared with the cost in a preceding year or the cost of the same procedure in another hospital.

The cost of outputs can be used to set benchmarks concerned with economy and efficiency issues. For effectiveness, the cost of an increase in life expectancy might be an appropriate benchmark in the health field.

Some examples of benchmarks used by others are:

- percentage of persons living below a poverty level
- life expectancy in years
- violent crime per unit of population
- rate of unemployment
- per capita gross Provincial product
- percentage of university graduates employed in jobs related to their training
- quantity of hazardous waste produced

In my opinion, management should decide on the benchmarks that are appropriate for the organization. I will over time make recommendations to management that identify improvements in the use of benchmarks in budgeting and reporting. However, the first priority is to persuade management to link costs with outputs.

Rewarding performance

Having discussed systems that encourage improvement in economy, efficiency and effectiveness, I would now like to deal with a system that I believe may shortly start discouraging such improvements. At the moment, central control is being exercised over each government employee's salary.

In my opinion, in the longer-term, it would be better if control were exercised through the dollars available to fund a program rather than individual salaries. An assessment of the cost and effectiveness of programs should be the mechanism for allocating resources and controlling costs. Managers should be able to use some of the money saved through increased efficiency to reward those who have contributed to that efficiency.

It is my view that, in the longer-term, the money saved through increased efficiency will be far greater than the savings that can be achieved through salary restraint. However, to achieve the savings from increased efficiency, the talents of public servants must be mobilized. For public servants to think about, measure and report on the economy, efficiency and effectiveness of their programs requires a fundamental change in attitude. Such a change will not occur unless there is a way to reward employees for demonstrated improvements in program performance. If in the future, management is rewarded for improved performance, people will be able to assess whether the salary levels are reasonable from the

information on performance and salary levels that will be publicly reported.

I acknowledge that the government at the moment has no alternative but to make cost-cutting decisions even though it lacks adequate information on program performance. Having said this, I believe the quickest way to obtain better information on program performance is to be clear that improved results will be rewarded.

Capital assets

In my 1991-92 annual report, I recommended that the government prepare and make public a plan that will over time record all of the Province's assets and liabilities.

The most significant omissions from the calculation of the accumulated deficit were:

- the Province's pension liability,

- the Province's capital assets, and

- the investment in Provincially-owned universities, colleges and hospitals.

I was pleased that the 1992-93 consolidated financial statements included the Province's pension obligations as a liability. Inclusion of this significant liability is an excellent first step to recording all the Province's assets and liabilities.

The two remaining items, being the Province's capital assets and the investment in Provincially-owned universities, colleges and hospitals, are somewhat interlinked in that the major part of the investment in these Provincially-owned organizations is represented by capital assets.

The government has accepted my recommendation that a plan should be drawn up to deal with the question of capitalizing and amortizing capital assets in the consolidated financial statements.

At the moment, Provincially-owned hospitals record capital assets at amortized cost, whereas the universities and colleges record capital assets at gross cost. I believe that the universities and colleges should amortize their capital assets for the same reasons that the hospitals have adopted this approach. Amortizing capital assets is essential if outputs are to be costed, and the extent to which the assets have been consumed is to be measured.

As soon as capital assets are recognized in the consolidated financial statements, it would be sensible to consolidate the hospitals. Also, it would be appropriate to consolidate government commercial enterprises on a line-by-line basis, rather than on an equity basis as is done at present. If, at that time, the universities and colleges have commenced amortizing capital assets, as is my hope, then it would be sensible to consolidate these entities as well.

I wish to stress that recording and amortizing capital assets is more than an accounting exercise. To treat the cost of capital assets as expenditures in the year of acquisition rather than expensing assets over their useful lives obscures the true cost of outputs.

I discuss the amortizing of capital assets in more detail in section 2 under the Department of Advanced Education and Career Development. Also, I have made a specific recommendation to the Provincial Treasurer under Treasury in section 2.

Guidance For The Reader

Section 2

Section 2 of the report describes the work of my Office for 1992-93. It contains the significant audit observations and recommendations that were reported to management as a result of that work. When determining significance, I consider the nature and materiality of the matter relative to the individual entity and the government as a whole.

The recommendations that I consider most significant and which particularly warrant the attention of the Legislative Assembly are numbered and shown on a shaded background.

Section 3

Section 3 of the report describes the reporting process, contains a summary of the audit report reservations issued for 1992-93, includes my section 18 report, and discusses the audit of the Public Accounts.

Section 4

Section 4 presents my legislative mandate and the mission of the Audit Office. It includes an explanation of accounting principles, auditing standards and the Office's audit approach. The organization of the Audit Office is also described.

Acknowledgements

Pursuant to section 19(1)(b) of the Auditor General Act, I am pleased to report that in carrying out the work of my Office I received all the information, reports and explanations that were required.

I am pleased to acknowledge with gratitude the excellent co-operation extended to my staff by management of departments, agencies, and other organizations audited.

As this is my last report, I wish to express sincere appreciation to all my staff for the many efforts made to complete the numerous assignments arising from the work of the Office, not only for this past year but for all the years I have been Auditor General. It is through the tireless work of a strong and capable staff that the work of the Office is accomplished. Thank you so much for all that has been done.

Donald D. Salmon
FCA
Auditor General

Edmonton, Alberta
December 15, 1993

Improving The Financial Administration Of The Province

Public Accounts Committee

I believe that the Public Accounts Committee should be concerned with ensuring that the policies and programs of government are implemented in an effective, efficient, and economical manner. In my 1991-92 annual report, I stated that the Public Accounts Committee should:

- focus its attention on my annual reports and, in the absence of better effectiveness information, the more significant departures from budget as shown in Public Accounts;

- call deputy ministers and senior managers, who are primarily responsible for administration, rather than ministers, to answer for the implementation of government policy; and

- prepare recommendations to the Legislative Assembly on how the administration of government policy could be improved.

Although the government has not yet accepted my recommendation that deputy ministers and senior managers be called as primary witnesses, the government seems to have indicated that deputy ministers and senior managers will be available to answer questions on their administration. This appears to me to be a step in the right direction.

Based on my experience in working with Alberta's Public Accounts Committee, and in determining the practices in other jurisdictions, I have concluded that the Alberta Committee could function more effectively if it encouraged a non-partisan approach by limiting its size to a maximum of 11 members. The 1989 subcommittee of the Canadian Council of Public Accounts Committees recommended that Public Accounts Committees should have a minimum of five members and a maximum of eleven members on the basis that the Committee should be an effective working group.

I believe that an effective Public Accounts Committee, working along with the Auditor General, can serve to encourage improvement in the management of the Province's revenue, expenditure, assets and liabilities.

On December 1, 1993, the Select Special Committee on Parliamentary Reform (1993) submitted an interim report relating to the role and mandate of the Public Accounts Committee, for consideration by the Legislative Assembly. The report recommended that the number of members on the Public Accounts Committee be reduced from 21 to 17. The Select Special Committee on Parliamentary Reform intends to continue to review

the role and mandate of the Public Accounts Committee and present further recommendations in the near future.

Appointments

In my 1991-92 annual report (page 15), I recommended that the Province consider using the expertise of the Public Service Commissioner to short-list suitably qualified candidates for appointments to the boards of all Provincial agencies and Crown-controlled organizations. The primary criterion for selection of candidates should be proven relevant expertise.

On October 28, 1993, the Premier announced a new policy to implement my recommendation. The new policy applies to appointments to the boards of more than 90 government agencies, boards and commissions that are responsible for significant policy, regulatory or fiscal matters. They include university and college boards as well as boards of Provincially-owned hospitals. In response to enquiry as to my intent with the use of the word "all" in the context of the recommendation, I indicated to the government that it should be taken to mean all significant agencies and organizations.

The new policy requires ministers to establish review panels to review candidates for the identified board positions and to short-list suitable candidates for the minister and/or Executive Council. Ministers are encouraged to include the public, technical experts and/or key stakeholders as review panel members. The Public Service Commissioner's Office is available to assist the review panel.

A board, as a whole, should be able to demonstrate that it has members who understand the organization's business and that it has the mix of skills and experience necessary to set direction and measure and report on performance.

Salary disclosure

On September 17, 1993, the government made a management letter public that I had sent to the Deputy Minister of Executive Council on August 31, 1993. In the letter, I set out observations and a recommendation arising from my audits of Provincially-owned universities, colleges, technical institutes and hospitals for the fiscal years 1991-92 and 1992-93. The government used my management letter in the context of its discussion of public sector salary levels.

The purpose of my management letter was to promote improvement in information about the use of public money. Specifically, I was concerned that the public appeared to believe that all salaries in the public sector were frozen, a belief not supported by the facts.

The management letter included the following:

"The publicity given to salary restraint in the public sector encourages the belief that salaries paid for or funded by the Province are frozen. I am concerned that the actual response of board-governed Provincial organizations to salary restraint is not public information. If the facts regarding salary increases were known, I think the public would be startled. The salary increases are startling because they are so pervasive. I believe that autonomous boards should be held accountable for their decisions, and that financial information concerning those decisions should be made public.

"I believe that the autonomy given board-governed institutions was never intended to result in diminished accountability for the use of public money. The following recommendation is designed to improve public information about the use of public resources, thereby contributing to more informed decision making.

"It is recommended that the government require each board-governed Provincial organization to include a note in its published financial statements which provides such information as is necessary to understand the benefits, including salary, provided to members of the board, the chief executive officer, senior management, and other employees.

"Information on other employees should be presented in a way that would assist comparison of employee benefits within a sector, and between sectors. The note to the financial statements could group other employees by function or classification showing the aggregate benefits and average number of employees per group for the current and prior year. As you are aware, information in all notes to financial statements is audited to ensure fair presentation.

"I had expected that my audits of universities, colleges, technical institutes and hospitals would show zero percent increases in salary awards. However, this was not the case.

"In reviewing salary information, I observed that the salaries or bonuses of senior management employees increased in calendar year 1992 as compared to 1991. Some increases are significant in terms of either percentage or amount. Many of these salaries exceeded the high end of Salary Range D established by order in council for certain senior officials in government.

> "In conclusion, my recommendation is intended to improve accountability for the use of public money in Provincially-owned universities, colleges, technical institutes and hospitals."

Having made the management letter public, the government committed to providing board-governed institutions with direction on the form and content of the public disclosure of benefits, including salary, that would be expected from them. Under the Financial Administration Amendment Act, 1993, assented to in October, the Treasury Board can issue directives respecting the reporting by board-governed institutions. I understand that a directive has been prepared and will be issued shortly.

Annual reports

The quality of annual reports submitted to the Legislative Assembly by those managing public resources could be improved. Also, they are tabled too late to be useful.

In my 1991-92 annual report (page 14), I recommended that the government establish a system for promoting effectiveness measurement. I have commented on progress by the government towards establishing such a system in section 1 of this report. Specifically, the government intends to require most provincial agencies and Crown-controlled organizations to submit three-year business plans. However, reporting on plans without meaningful reporting on results will not provide the information needed to make sensible decisions to improve Alberta's financial position. The government's business plan initiative needs to be complemented with an initiative to improve effectiveness reporting.

At present, legislation requires many of the departments, boards and provincial agencies to prepare a report summarizing their transactions and affairs in the year and to present the report to the Legislative Assembly. Some organizations are not required to table any annual reports. Many of these are Provincial agencies incorporated under the Business Corporations Act. When legislation directs the preparation and tabling of an annual report, it usually is not specific about what the annual report should contain and does not indicate a deadline for reporting to the Legislative Assembly.

<u>Quality of information</u>

Most of the annual reports examined contained the organization's annual financial statements or summary financial information. However, only a small number contained information about achievements of goals or discussion of future goals. These findings confirm that departments and Provincial agencies are not assessing and reporting on their performance.

It will take some time before most organizations have appropriate systems to measure performance. However, I believe that it is not necessary to wait until all performance information is gathered before organizations begin to improve the quality of the information included in their annual reports.

I believe that all organizations can provide information about their mission or purpose. They can also identify what they expect to achieve in the short and long-term. This type of information should be available from the three-year business plans which the government has asked departments and agencies to prepare.

Information can also be provided about the resources used by the organization. Annual reports should contain audited financial statements, or financial highlights if audited financial statements are not prepared. Explanations should be provided for significant variances between actual and budgeted revenues, expenses and cash flows. Changes from the prior year should also be explained. Most importantly, annual reports should make clear the cost of the organization's outputs.

Inclusion of the above information in annual reports would help Members of the Legislative Assembly to evaluate the activities and results of departments and agencies. Other appropriate information, for example performance against benchmarks, can be integrated into the reports as systems are developed to assemble the information. I would, therefore, hope to see an improvement in the usefulness of annual reports over the next few years as the business plans improve, as the cost of outputs and results are computed, and as performance indicators and benchmarks are adopted.

The goal should be to have annual reports that are useful to managers, Members of the Legislative Assembly, and the public. The test of usefulness is whether the performance measurements are verifiable and as simple as possible to identify potential program improvements.

Timeliness

Tabling of reports is affected by the timing, duration and frequency of sittings of the Legislative Assembly. In my 1990-91 annual report (page 4), I commented that if the Legislative Assembly is not sitting, the tabling of documents is delayed until the session resumes. Therefore, the greater the length of time between sittings, the greater the delay in making the information available for use. I realize that, on occasion, reports are made available to Members of the Assembly and/or the public before they are tabled. This practice, however, may not provide all Members with equal access

to information. I recommended that the Legislative Assembly Office seek amendments to the Standing Orders of the Legislative Assembly to improve procedures used for the release of documents prior to their tabling in the Legislature. Although I was informed that the Speaker had formulated a recommended change to the Standing Orders to permit deemed tabling of documents with the Clerk, the Standing Orders have not yet been changed with respect to this matter.

My staff examined reports tabled during the 22nd Legislature which comprised four sessions from March 19, 1992 to May 17, 1993. The reports examined were for funds and agencies included in Public Accounts and some organizations not included in Public Accounts, such as universities, colleges and hospitals.

	Number
Reports tabled within six months of the year end	5
Reports tabled between six months and one year after the year end	15
Reports tabled more than one year after year end	41
Reports required but not tabled during the sessions	8
Total	69

In a management letter to the Deputy Minister of the Executive Council, I made the following recommendation:

Annual reports

Recommendation No. 1

It is recommended that the government provide direction to departments and Provincial agencies to improve the contents and timing of submission of annual reports to the Legislative Assembly.

Lloydminster Bi-provincial Upgrader Project

The Lloydminster Bi-provincial Upgrader is a joint venture between the governments of Alberta, Canada and Saskatchewan and Husky Oil Limited to convert heavy oil and bitumen into synthetic crude oil. The joint venture agreement was signed in September 1988, and the Upgrader commenced operations in September 1992.

Alberta committed to investing $404 million in this project. At March 31, 1993, $394 million had been advanced to the joint venture from the Alberta Heritage Savings Trust Fund. However, the estimated value of the project was significantly less than the advances. Therefore, write downs totalling $305.5 million were recorded in 1991-92 and 1992-93.

In addition to investing in construction costs, Alberta is committed to provide funding up to an amount of $19.2 million to cover operating shortfalls. As at March 31, 1993, Alberta had provided non-interest bearing advances in the amount of $10.1 million through 540540 Alberta Ltd.

Current expectations and overall responsibility for Alberta's investment

Alberta's expectations for its continued investment in the Lloydminster Bi-provincial Upgrader are not clear and need to be defined.

Now that the construction is complete, the economic and social benefits expected from the continued investment should be defined. Without established expectations, appropriate decisions on such matters as funding operating shortfalls, expansion or disposal cannot be made.

In a management letter to the Deputy Minister of Executive Council, I made the following recommendation:

Lloydminster Bi-provincial Upgrader Project

Recommendation No. 2

It is recommended that Executive Council identify Alberta's current expectations from its investment in the Lloydminster Bi-provincial Upgrader.

Department of Executive Council
year ended March 31, 1993

In addition to the annual financial audit, my staff examined the disaster claims made by Alberta Public Safety Services for cost sharing with the federal government through Emergency Preparedness Canada.

ENTITIES ADMINISTERED BY MEMBERS OF THE EXECUTIVE COUNCIL

Certain members of the Executive Council have been charged by the Lieutenant Governor in Council with the administration of the following Acts:

- Alberta Educational Communications Corporation Act
- Alcohol and Drug Abuse Act
- Interprovincial Lottery Act
- Liquor Control Act
- Metis Settlements Accord Implementation Act
- Racing Commission Act
- Wild Rose Foundation Act
- Workers' Compensation Act

My observations on the entities which operate pursuant to these Acts are, therefore, included here under Executive Council.

The Alberta Educational Communications Corporation
year ended March 31, 1993

In addition to the annual financial audit, my staff examined the systems used to record and report information relating to the purchase of materials and supplies, and to manage materials distributed by the Media Resource Centre.

Media Resource Centre

There is insufficient accountability for the monies spent by the Corporation's Media Resource Centre.

The Corporation spends approximately $1.5 million each year on materials for sale and distribution by its Media Resource Centre, mainly to school boards. Annually, the Department of Education decides which materials the school boards are likely to need. The Corporation then acquires or produces these materials and makes

them available to the school boards through its Media Resource Centre.

This arrangement raises accountability concerns because the Department of Education is being allowed to decide how the Corporation should spend part of its annual budget. No part of the Corporation's budget is funded by the Department of Education and, therefore, the Department is not accountable for Media Resource Centre expenditures.

Proper accountability requires that the same entity be responsible for setting program objectives and for reporting to the Legislative Assembly on the spending intended to achieve those objectives.

In a management letter to the Corporation's President and Chief Executive Officer at the conclusion of the audit, it was recommended that the Corporation take responsibility for deciding how public monies to finance the operations of the Media Resource Centre are spent and for reporting to the Legislative Assembly on the effects of that spending.

Lottery Fund
year ended March 31, 1993

Accountability

In my 1991-92 report (page 20), I commented on the need for greater accountability for the expenditure of lottery revenues. My comments were directed at two separate and distinct categories of expenditure - those expenditures made from the Lottery Fund, and those made from lottery revenues that are not deposited in the Lottery Fund.

<u>Expenditure made from the Lottery Fund</u>

This year, I am pleased to report that Government has responded to my concerns related to expenditure made from the Lottery Fund. The 1993-94 Lottery Fund Estimates were presented by the Minister Responsible for Lotteries and an appropriation bill to enable expenditures to be made from the Lottery Fund for 1993-94 was introduced to the Legislative Assembly.

Based on this action, I believe it would now be appropriate for the government to formalize the annual appropriation of money from the Lottery Fund by amending the Interprovincial Lottery Act.

I also believe that annual appropriations from the Lottery Fund should be expended under the direction of applicable government departments. At present, the Minister Responsible for Lotteries is

delivering programs in areas where responsibility for providing services has been conferred on other departments. If the proposed expenditures of the Lottery Fund were voted as departmental projects, in the same way as is done for the General Revenue Fund, the Capital Fund and the Capital Projects Division of the Alberta Heritage Savings Trust Fund, departments would be seen to be responsible for the expenditures. Moreover, by fixing responsibility for program delivery with the applicable department, the Legislative Assembly would be encouraging departmental accountability for the delivery of needed services at least cost.

Expenditure made from lottery revenues that are not deposited in the Lottery Fund

Alberta Lotteries operates as a partnership of Edmonton Northlands and Calgary Exhibition and Stampede Ltd. The partnership, as an agent for the Province of Alberta, receives lottery revenues and expends funds from lottery revenues:

- as marketing organization for the Western Canada Lottery Corporation,

- as operator of video lottery schemes in Alberta, and

- as a provider of services to administer the Lottery Fund including the administration of Lottery Fund grant programs.

The net lottery revenues remaining after Alberta Lotteries has expended funds as an agent for the Province, are deposited in the Lottery Fund.

Although Lottery Fund accountability has been improved, there is no public accountability for those lottery revenues which are expended by Alberta Lotteries.

Alberta Lotteries' operating expenditures have almost quadrupled in three years from $14.5 million in 1990-91 to $52.5 million in 1992-93. None of these expenditures have been publicly accounted for.

In my opinion, it is not sufficient to declare that public accountability is achieved by making Alberta Lotteries' financial statements available to the public. Such a process does not permit the inclusion of such information in the consolidated financial statements of the Province, nor does it provide an opportunity for the Members of the Legislative Assembly, or Committees of the Legislative Assembly, to review planned or actual use of these lottery funds.

Conclusion

The government is developing ways to improve the budgeting and reporting processes used by the Province. As I believe that the necessary improvements in accountability for lottery funds should be considered in this wider context, I have decided not to make separate recommendations to improve the processes relating to lottery funds.

The Workers' Compensation Board
year ended December 31, 1992

In addition to the annual financial audit, my staff examined the nature and appropriateness of information used by the directors and by management to discharge their respective responsibilities regarding claims.

Liability for claims

In my 1991-92 annual report (page 22), I indicated that The Workers' Compensation Board would be better able to manage claims costs, and consequently, assessment revenue and its accumulated deficit, if it conducted a more detailed analysis of the annual change in its liability for claims.

Each year the Board makes an estimate of the year end liability for claims benefits payable to injured workers. There are many reasons for the annual change in the amount of the liability. For example, there are new claims from injured workers, settlements of existing claims, and changes in the assumptions used to estimate the liability.

I have not repeated my recommendation as the Board is now doing a more detailed analysis of the change in the liability. A note in the Board's financial statements for the year ended December 31, 1992 includes an analysis of the change in the claims liability from the prior year.

Claims information

The directors and management do not receive appropriate information to help them set and administer policy with respect to claims benefits.

The directors are responsible for determining The Workers' Compensation Board's benefit policies. Management is responsible for implementing procedures to process claims in accordance with those policies.

As the types of compensation claims become more numerous and complex, and as the Board works to reduce its large deficit, it is increasingly important for the directors and management to have the

information which measures the financial impact of the Board's compensation policies.

Reports on claims lack clarity and require interpretation and explanation to be understood. For example, several departments submit reports on claims to the Board, but the information in the reports is not consistent between the departments. As a result, the directors and management do not have a concise and cohesive overview of the claims business. Furthermore, the reports do not direct attention to the claims and policies that have the most significant effect on the Board's operations.

In a management letter to the President and Chief Executive Officer at the conclusion of the audit, it was recommended that the directors of The Workers' Compensation Board obtain the information needed to set claims policies, and that management obtain the information it requires to manage claims in accordance with Board policy.

I understand that the Board is proceeding to implement this recommendation.

Budget

The Board did not prepare a complete budget of its revenue and expenditure for 1992.

Without a budget, the Board was unable to include a comparison of actual and budgeted amounts of revenue, expenditure and cash flow in its financial statements as required by the Province's Controller.

The purpose of providing budget information in the financial statements is to strengthen the accountability process. A comparison of actual financial results to expected results provides useful information.

In a management letter to the Board's President and Chief Executive Officer at the conclusion of the audit, it was recommended that the Board prepare and include in its future financial statements a budget of its revenue, expenditure and cash flow.

New management at the Board had recognized the need to develop a comprehensive budget in order to manage resources more effectively. I have been informed that a comprehensive budget has been prepared for 1993 and approved by the Board of Directors. The Board intends to include budgeted amounts in its 1993 financial statements.

Overpayments

The Board's controls to prevent overpayments to claimants are inadequate.

Overpayments are the result of administrative errors in claims processing or incorrect reporting by employers and employees. In some instances, overpayments identified by the Board were not recorded properly to ensure that they were followed up.

In one instance, for example, a claimant indicated in 1989 an intention to appeal a $15,000 overpayment but has not yet started the appeal. The Board has not attempted to recover the amount because the claimant indicated the overpayment would be appealed. In another instance, the Board made a $6,000 payment in error to an injured worker instead of to the employer. The Board then paid the employer but has not yet attempted to recover the payment to the employee.

In a management letter to the President and Chief Executive Officer at the conclusion of the audit, it was recommended that the Board recover overpayments and improve its controls to reduce overpayments.

I have been informed that the Board is taking corrective action.

Cost relief

The Board needs to take greater care in applying cost relief policies.

The Board may approve removing all or some of an injured worker's claim costs from the accident experience of the employer. For example, the Board may allow cost relief for back injuries when the back injury is the result of a pre-existing condition. This process is referred to as cost relief. Such costs will not affect an employer's assessment rate.

There were instances where cost relief was provided incorrectly. For example, an employer requested relief for costs related to an employee who suffered shoulder and neck strain. Although there were no pre-existing conditions, cost relief was approved under the policy which allows cost relief for back injuries when there is a pre existing condition.

In a management letter to the Board's President and Chief Executive Officer at the conclusion of the audit, it was recommended that the Board improve its procedures for determining when cost relief is appropriate.

I have been informed that the Board has examined its cost relief policies and is reviewing the criteria and procedures to be used when applying for cost relief.

Employer compliance with the Act

The Board has not enforced compliance with section 28 of the Workers' Compensation Act which directs employers to report all instances of employee accidents. The section also states that employers are liable for financial penalties if they contravene section 28 without reasonable cause.

My staff observed cases where employees or medical practitioners filed accident reports but there were no reports filed by employers. In addition, instances were identified where employers were aware that injured workers had returned to work, but the employers failed to inform the Board of that fact.

In one case, the Board overpaid an injured worker because the employer had failed to notify the Board that the worker had returned to work. The employer contended that the Board should have realized during the rehabilitation process that the worker had returned to work and therefore not continued to pay the injured worker. There was no evidence to show that the Board had determined that there was reasonable cause for the employer not to have reported the worker's return to work.

In a management letter to the President and Chief Executive Officer at the conclusion of the audit, it was recommended that The Workers' Compensation Board investigate those instances where employers fail to comply with the Workers' Compensation Act.

I have since been informed that the Board will consider additional assessments but only in the case of chronic offenders.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1993:

Alberta Alcohol and Drug Abuse Commission
Alberta Racing Commission
Metis Settlements Transition Commission
Metis Settlements Transition Fund
The Wild Rose Foundation

and the **Alberta Liquor Control Board** for the year ended January 5, 1993

Improving The Financial Administration Of The Province

Consolidated budget

In my 1991-92 annual report, I reported that without a consolidated budget, Members of the Legislative Assembly cannot view the sum of the individual budgets. In other words, they were not given the whole picture.

I recommended that the government prepare annual consolidated budgets in order to communicate financial plans at the highest summary level and for subsequent comparison to the Province's consolidated financial statements.

This recommendation has been acted on. The 1993-94 consolidated budget includes the revenue and expenditure of the largest funds being the General Revenue Fund, Capital Fund, Health Care Insurance Fund, School Foundation Program Fund, and the Capital Projects Division of the Alberta Heritage Savings Trust Fund. Nineteen of the most important other funds and agencies have also been included by bringing in their projected operating surplus or deficit.

The first step to a full consolidated budget showing the Province's budgeted revenue and expenditure by sector has been taken. I concur with the Provincial Treasurer's assessment that full implementation which will consolidate the revenue and expenditure of all funds and agencies will take some time.

Timeliness of reporting

In my 1991-92 annual report, I stated that the first improvement needed in the reporting process was earlier reporting. I recommended that the government release the Province's 1992-93 Public Accounts by September 30, 1993.

On September 8, 1993, the Provincial Treasurer released the Province's 1992-93 consolidated financial statements and he tabled the Public Accounts on September 30, 1993.

I am pleased that timely, realistic financial information is available to those who are examining the Province's financial problems. I wish to commend the efforts of the staff of the Treasury Department, and all the organizations included in the consolidated financial statements, in accomplishing an early release of the Public Accounts.

The government has set June 30, 1994, as the target date for release of the 1993-94 consolidated financial statements.

Public Accounts

In my 1991-92 annual report, I recommended that the Public Accounts of Alberta include the financial statements of all Provincial agencies and Crown-controlled organizations, and their subsidiaries. I can report that the government implemented this recommendation in the 1992-93 Public Accounts with the exception of Provincially-owned universities, colleges and hospitals which I discuss on page 25.

I also recommended that all financial statements included in the Public Accounts contain a comparison of actual and budgeted amounts of revenue, expenditure and cash flow. The purpose of this recommendation is to make it possible for Members of the Legislative Assembly, and others, to compare actual results with planned results. Comparing actual with budget is logical in the absence of better effectiveness information.

The government accepted this recommendation, and in the 1992-93 Public Accounts many statements include budget information. A good start has been made in implementing my recommendation.

Crown-controlled organizations

In my 1991-92 annual report, I recommended that the definition of a Crown-controlled organization be widened to include a 50% interest in, or equal control of, an organization. This change would extend the application of my previous recommendations to any use of public funds in such joint ventures.

The recommendation has been accepted and implemented through the Financial Administration Amendment Act, 1993, assented to in October 1993.

Consolidated Financial Statements of the Province
year ended March 31, 1993

The Province's consolidated financial statements are published as Volume 1 of the Public Accounts. The 1992-93 consolidated financial statements were released by the Provincial Treasurer on September 8, 1993. The notes to the consolidated financial statements explain the accounting policies and reporting practices employed in preparing them.

I was able to report without reservation on the Province's consolidated financial statements for the year ended March 31, 1993. My report is reproduced on page 173 of this report.

The Treasury Department has made significant improvements to the consolidated financial statements. Many of the recommendations which I made in past annual reports have now been implemented,

such as the recording of pension obligations and other employee benefits and the inclusion of Crown-controlled corporations. Recognition that loans to school boards can only be repaid out of future appropriations, and that certain accounting estimates needed to be more realistic, are other significant steps forward.

The following commentary, however, discusses other needed improvements to the consolidated financial statements.

Unrecorded capital assets

The Province's investment in capital assets should be recorded in the consolidated financial statements.

The key to improving the consolidated financial statements is to begin to capitalize and amortize capital assets in the General Revenue Fund. As I have discussed in section 1, capitalizing and amortizing capital assets is essential if outputs are to be costed, and is a prerequisite to the consolidation of the Provincially-owned universities, colleges and hospitals.

Some progress has been made by the Treasury Department towards recording capital assets. Specifically, the Treasury Department has requested information from departments about the cost and amortization of general capital assets, such as land, buildings, vehicles and equipment. The Treasury Department is considering disclosing this information in a note to the 1993-94 consolidated financial statements if departments can provide it.

In a management letter to the Deputy Provincial Treasurers, I made the following recommendation:

> Consolidated Financial Statements - Unrecorded capital assets
>
> **Recommendation No. 3**
>
> It is recommended that the Treasury Department record as soon as practicable the cost and amortization of the Province's land, buildings, vehicles and equipment, in the consolidated and General Revenue Fund financial statements.

Reporting entity and method of consolidation

The consolidated financial statements do not include the financial results, position and cash flows of the Provincially-owned universities, colleges and hospitals. Also, commercial enterprises and Crown-controlled organizations are not consolidated on a line-by-line basis.

The Treasury Department intends to include the financial statements of Provincially-owned universities, colleges and hospitals in the

1993-94 Public Accounts. I support this initiative as contributing to improved disclosure of the use of public resources. However, the Treasury Department does not intend to consolidate these entities in the 1993-94 year.

The matter of the Province's capital assets and the investment in Provincially-owned universities, colleges and hospitals, are somewhat interlinked in that the major part of the investment in these Provincially-owned organizations is represented by capital assets. In order for a proper consolidation of these entities to be done, the matter of capitalizing capital assets has to be resolved.

As soon as capital assets are recognized in the consolidated financial statements, it would be sensible to consolidate the hospitals as they already record capital assets at amortized cost. If, at that time, the universities and colleges have commenced amortizing capital assets, then it would be sensible to consolidate these entities as well.

Further, when capital assets are recognized in the consolidated financial statements, it would also be appropriate to consolidate government commercial enterprises on a line-by-line basis rather than on an equity basis as is done at present. In this way, the capital assets of commercial enterprises can be included with all other capital assets on the consolidated balance sheet.

The financial statements of commercial enterprises and Crown-controlled corporations include the cost and amortization of capital assets. However, under the equity basis of consolidation, their assets and liabilities are shown as one net amount on the balance sheet rather than with specific assets and liabilities on the balance sheet.

Revenue

Under the present accounting practice, certain revenue is recorded on a cash basis. In other words, revenue is recorded when a receipt is collected, rather than when the event that caused the revenue to be earned took place. The disadvantage with using a cash basis when reporting revenue is that it can misinform and confuse readers.

As disclosed in Note 1 (c) of the consolidated financial statements, there are several revenue sources such as personal and corporate income taxes and non-renewable resource royalty revenue which are not reported on an accrual basis.

In addition, there are other less significant sources of revenue which are not reported on an accrual basis and which are not disclosed in the notes to the financial statements. Examples of these are motor vehicle and operator licences and energy rentals and fees.

I believe that the Treasury Department has sufficient experience to reasonably estimate the accrued revenue from these sources at each year end. If this was done, revenue could be allocated to the period when it is earned.

In a management letter to the Deputy Provincial Treasurers at the conclusion of the audit, I made the following recommendation:

> Consolidated financial statements - Revenue
>
> **Recommendation No. 4**
>
> It is recommended that the Treasury Department record all revenue in the consolidated and General Revenue Fund financial statements on an accrual basis.

Pension liability

In my 1991-92 annual report (page 25), I recommended that the Treasury Department include the liability for the Province's pension obligations in the 1992-93 consolidated and General Revenue Fund financial statements. The Treasury Department recorded a liability of $4.8 billion for pension obligations as at March 31, 1993. I am pleased that the Treasury Department has made this significant improvement to the Province's financial statements.

Pension disclosure

Although there is significant accounting disclosure about the Public Service, Management Employees and the Public Service Management (Closed Membership) pension plans in the consolidated and General Revenue Fund financial statements, further information would be useful to those trying to understand the impact of these pension plans on the government's financial affairs.

All of the information suggested in the Canadian Institute of Chartered Accountants Handbook should be disclosed. The information missing at present is a description of the pension plans, the basis on which benefits are calculated, the amount of pension expenditure and components of the expenditure. Components include the annual cost of employees' service, determined by an actuary, and interest on the unfunded pension liability.

Also, it is good practice to disclose demographic and related financial information, such as the number and average age of employees participating in the pension plans and the dollar value of their contributions. Full disclosure is important because the measurements that determine the pension liability depend heavily on judgement rather than on objective evidence.

In a management letter to the Deputy Provincial Treasurers at the conclusion of the audit, it was recommended that the Treasury Department expand the accounting disclosures for the Public Service, Management Employees, and the Public Service Management (Closed Membership) pension plans in the consolidated and General Revenue Fund financial statements.

New actuarial valuations

The next valuations required by statute for some plans may not occur early enough to meet the current need to allocate pension liabilities to employers.

For the Local Authorities, Public Service, Management Employees, and Universities Academic pension plans, pension reform in 1993 has shifted part of the actuarial liability to non-government employers and to Provincial agencies, including Provincially-owned hospitals, colleges, and universities. The allocation of the actuarial liability is based on the estimated amount of pension benefits earned by an organization's employees. To enable those organizations to establish their liability, current actuarial valuations need to be performed so that the actuary can make the allocation to individual employers.

Since the actuary did not make an allocation when the last valuations were performed as at December 31, 1991, the next most convenient date for an actuarial valuation and allocation is December 31, 1993.

Subsequent to March 31, 1993, the Members of the Legislative Assembly Pension Plan Amendment Act, 1993 was passed. This legislation radically changed the plan by eliminating future plan membership. The 1992-93 financial statements included a pension liability of $55 million determined by an actuarial valuation as at December 31, 1991. As the valuation was performed prior to the recent change in legislation, the reported liability does not take into account the impact of the new legislation.

In a management letter to the Deputy Provincial Treasurers, I made the following recommendation:

> Treasury Department - New actuarial valuations
>
> **Recommendation No. 5**
>
> It is recommended that new actuarial valuations be performed as at December 31, 1993, for pension plans, in order to establish each employer's liability.

Actuarial valuations, assumptions

The actuary had concerns about two assumptions used to determine the amount of the Province's liability for several plans. The two assumptions are the real rate of return on investments and the future plan membership growth rates.

The real rate of return on investments

For the following actuarial valuation reports, the actuary was concerned about the need for development and implementation of an investment policy designed to achieve a future real rate of return of at least 3.5% per annum:

Plan	Valuation date
Local Authorities	December 31, 1991
Public Service	December 31, 1991
Public Service Management	December 31, 1991
Special Forces	December 31, 1991
Universities Academic	December 31, 1991

If the future real rate of return is less than 3.5% per annum, the pension fund assets will be less than expected and the Province's liability will correspondingly increase. A small decrease in the actual rate earned from the assumed rate will significantly increase the Province's liability.

Membership growth rates

The actuary was also concerned that he had not performed sufficient analysis on the growth rate, provided by the Treasury Department, to enable him to determine if that assumption was adequate and appropriate.

The growth rate assumption is critical to the viability of the plans. The growth rate is a key component in establishing each plan's funding requirements. For each plan, the actuary has determined the contributions, based on the growth rate, required to settle each plan's liability for employee benefits. If the actual growth rate is less than expected, then contributions will be insufficient. Therefore, in order for the funding to continue to be sufficient to settle the liability, either the contributions would have to be increased or the benefits would have to be reduced.

Concerning the Special Forces Plan, there is a Provincial guarantee to settle the plan liability if the contributions are insufficient. Therefore, if the growth rate is less than expected, the Province would have an increased liability.

In a management letter to the Deputy Provincial Treasurers, I made the following recommendation:

Treasury Department - Actuarial valuations, assumptions

Recommendation No. 6

It is recommended that the Treasury Department take the steps necessary to deal with the actuary's concerns, regarding future rate of return and plan membership growth, in quantifying the Province's pension liability.

Long-term disability costs

In my 1991-92 annual report (page 29), I recommended that the Treasury Department record, in the 1992-93 consolidated and General Revenue Fund financial statements, the full costs and the related liabilities of the Province's long-term disability plans.

I am pleased to report that the Treasury Department has implemented this recommendation.

General Revenue Fund
year ended March 31, 1993

The financial statements of the General Revenue Fund report the revenues and expenditures of the seventeen government departments and the Legislative Assembly, including its Legislative Officers, together with the financial assets and liabilities they administer.

I was able to report without reservation on the General Revenue Fund financial statements for the year ended March 31, 1993.

Crown-Controlled Organizations

Details of Crown-controlled organizations are disclosed in Volume 3, section 3, of the 1992-93 Public Accounts.

Section 16 of the Auditor General Act provides the Auditor General with access to information concerning these organizations if the Auditor General is not the auditor of the organization.

All of the information which I required to properly fulfil my obligations concerning these organizations has been made available to me.

Treasury Department
year ended March 31, 1993

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used by the Department to measure and report on the effectiveness of the Alberta Royalty Tax Credit Program.

- An examination of the systems used by the Department to report investment activities and results to investors in pooled investment funds.

- An examination of the systems used by the Department to identify the reasonableness of payroll processing costs.

Alberta Royalty Tax Credit Program

The Alberta Royalty Tax Credit Program refunds a portion of the Alberta Crown Royalties received by the Province. In 1992-93 the amount refunded was $246 million, about 11% of the royalties received.

The Program is administered by the Department of Energy and the Treasury Department. The Department of Energy's involvement is mainly in the area of policy development and industry contact. The Treasury Department is involved with policy development, program design, budgeting, fiscal planning, program monitoring and compliance with legislation.

<u>Goals</u>

The Department of Energy and the Treasury Department are not able to determine if refunds to royalty payors are achieving their purpose.

Public announcements when the Program was last renewed indicated that the Program was designed primarily to help small oil and gas producers by enhancing their cash flow. However, the expected distribution of funding between various sized producers was not established. Therefore, it is not possible to determine if funds are being allocated to the desired producers.

Another stated objective of the Program is to sustain exploration and development activities. Again, the desired level of exploration and development activities has not been quantified. Therefore, it is also not possible to determine if this goal has been achieved.

I recognize that it is difficult to determine the effect of this Program on this latter objective because other programs also contribute to this

objective. However, quantification of the goal would help in the assessment of the Program in conjunction with these other programs.

The Program's term will end on December 31, 1994, and I understand that the Program is currently under review by the Treasury Department and Department of Energy. As part of this review, the purpose and goals of the Program should be quantified to the extent possible. Goals stated in measurable terms will help the departments to assess and report on the effectiveness of the Program.

In a management letter to the Deputy Provincial Treasurers at the conclusion of the audit, I made the following recommendation:

> Treasury Department - Alberta Royalty Tax Credits
>
> **Recommendation No. 7**
>
> It is recommended that, as part of the Program review, the Treasury Department define the goals of the Alberta Royalty Tax Credit Program in measurable terms.

Program control

The Treasury Department is not able to establish a link between royalties received by the Province and Alberta royalty tax credits given by the Province to taxpayers. Claims for credits are administered by the Treasury Department. Royalties are administered by the Department of Energy through its royalty systems.

Crown royalty is collected by the Department of Energy from the operators of oil wells and gas plants. Tax credits are claimed by corporations, trusts and individuals who are the beneficial owners of producing properties. Not all beneficial owners are operators. Due to the complexities of the Program, it is very difficult, and in some cases impossible, to link the royalties paid to the Province with the royalty tax credits claimed by the beneficial owners.

In my 1990-91 and 1991-92 annual reports (page 33), I recommended that the Treasury Department establish a link between royalties received and credits given by the Province in order to have assurance that the amount of credits provided is correct.

Following a study of the control issues, the Treasury department concluded in a report dated April 22, 1993 that it was not possible to tie royalties, data of the Department of Energy, to royalty

claimants, data of the Treasury Department. The Department also concluded that its audit process adequately detected errors and recovered overpayments. The report noted that of the claims audited in one year 58.85% were changed.

Based on the existing program design, the Treasury Department's reliance on the audit process to detect errors makes sense. However, without a link between the royalties received and credits paid, it is impossible to determine the total amount of incorrect claims. Without this total, it is not possible to determine the effectiveness of the audit control.

As the Program is currently being reviewed, it is appropriate at this time to consider alternative designs which could reduce the error rate and facilitate control.

In a management letter to the Deputy Provincial Treasurers at the conclusion of the audit, it was recommended that the Alberta Royalty Tax Credit Program's design be modified to reduce errors in claims and to facilitate better control.

Pensions Administration

For the past few years, I have been concerned that the information in the Contributor System is not up-to-date and is incorrect. This information is used to calculate pension payments and the Province's actuarial liability for pensions.

In an attempt to keep the information up-to-date and correct, the Treasury Department requires 570 employer organizations to provide the Department with audited annual returns specifying each contributor's pensionable salary and period of service. These audited returns need to be received and reviewed punctually. Also, if concerns are identified by the auditors, then the information in the system needs to be adjusted promptly.

My concerns arising from the current year's audit are as follows

<u>Lack of follow-up on outstanding returns</u>

Pensions Administration staff should receive and review an audited annual return from each employer by June 30 of the following calender year. The purpose of this control is to ensure that contributions and information previously submitted by employers are, in fact, correct.

In my last two annual reports (1991-92 page 34), I reported that this control was not operating satisfactorily because there was significant delay in obtaining returns from some employers. The delay in receiving returns is now even greater. At July 1993, there were 138

returns outstanding for the 1992 calender year, and 106 returns outstanding for prior years.

Delay in responding to concerns

Pensions Administration is not taking prompt action to ensure that all employees required to participate in pension plans are participating.

Since 1991, I have reported to Pensions Administration that certain employees of a Provincial corporation should have been participants in a pension plan. Pensions Administration did not take corrective action until September 1993 when my staff actively pursued this matter.

Costs are being incurred by Pensions Administration and by employer organizations to ensure that information in the Contributor System is up-to-date and correct. However, the full benefit from these costs is not being obtained. Moreover, because information is incorrect, additional costs are incurred by Pensions Administration to verify information when an employee retires.

In a management letter to the Deputy Provincial Treasurers, I made the following recommendation:

> Treasury Department - Pensions Administration
>
> **Recommendation No. 8**
>
> It is recommended that the Treasury Department establish procedures to ensure that the Contributor System contains information which is correct.

Unpaid excise taxes

There is a risk that unpaid excise taxes will not be collected by the Revenue Administration Division. I reported this matter in my previous annual report (page 35). Action to deal with my concerns has commenced.

Alberta excise tax systems require the taxpayer to determine and report the tax due to the Province. Taxpayers file tax returns which show how taxes due are calculated. To gain assurance that the information supplied is correct, the Division's staff examine these returns and may examine taxpayer records.

The types and amount of excise taxes, and the number of taxpayers have increased significantly over the last ten years. Although manpower resources for administering excise taxes have increased, it

is not clear that they are at an appropriate level or appropriately deployed to deal with the risks that the Tax and Revenue Administration Division faces today. I had previously reported that resources were not sufficient to enable the Division to complete its planned activities and it was not always apparent why certain activities were undertaken to the exclusion of others.

As indicated above, the system relies on the taxpayer to report the taxes due. As a result, the Department does not know the amount of unreported taxes. What is required is an assessment of the unreported net taxes that could reasonably be collected.

The Division is presently examining all aspects of processing returns and is also examining ways to enhance the productivity and cost effectiveness of its operations. Management believes that improved processing and reporting procedures will allow them to make an estimate of potential tax losses. My staff will review the effects of these significant initiatives during the next audit to determine if they will resolve my concerns.

As the Department has not fully implemented this recommendation, in a management letter to the Deputy Provincial Treasurer, Finance and Revenue at the conclusion of the audit, it was again recommended that the Treasury Department estimate the uncollected net excise tax revenues that can be recovered and develop a plan to optimize their recovery.

Payroll Branch

The Payroll Branch could compare the cost of the services it provides against other organizations' costs, but has not done so recently.

An internal report prepared by the Branch stated that, during the fiscal year 1992-93, the Branch had provided payroll services for approximately 33,000 salaried and 8,000 wage employees of the Provincial government at an average direct cost per employee of $54 per annum.

However, the Branch does not have information to compare those costs with other organizations' costs, including those in the private sector. The only comparison made, at the initiative of the federal government, was with two other government jurisdictions for 1985-86. I believe that current information is necessary for an assessment of the reasonableness of the Branch's costs.

In a management letter to the Deputy Provincial Treasurers, it was recommended that the Branch improve and update its system to measure and report on the reasonableness of payroll processing costs.

Investment management services

Some Provincial organizations that manage funds are not maximizing their investment returns while minimizing their investment risks.

A number of Provincial organizations lack investment expertise or, because of the size of their investment funds, lack access to investments that may earn higher returns and diversify investment risks.

The Consolidated Cash Investment Trust Fund invests in short-term marketable securities which tend to have lower rates of return than longer-term investments such as bonds. At March 31, 1993, the Fund held approximately $1.3 billion of investments. By reviewing depositors in the Fund, my staff identified a number who continually maintained significant balances in the Fund. These depositors could increase their investment returns if they used investment management expertise of the type available within Treasury.

In a management letter to the Deputy Provincial Treasurer, Finance and Revenue at the conclusion of the audit, I made the following recommendation:

> Treasury Department - Investment management services
>
> **Recommendation No. 9**
>
> It is recommended that the Treasury Department identify Provincial organizations that could benefit from investment management services.

Indemnities

<u>Control over indemnities</u>

The Treasury Department does not identify or track all the indemnities provided by departments and Provincial corporations. Without this information, the Province is not able to properly assess its exposure to loss. Also, the Province cannot meet the reporting requirements of the Financial Administration Act.

An indemnity is an undertaking by the Province to pay losses, damages or expenses incurred by the indemnified party. Some indemnities are authorized by an Order in Council, and some by the Treasury Board. Others may be included as standard clauses in contracts which may be authorized by any department in the normal course of its business.

Section 76 of the Financial Administration Act requires that indemnities given in a fiscal year by the Crown or by Provincial

corporations be reported by the Provincial Treasurer. However, not all indemnities given are reported in Public Accounts.

The Treasury Department needs to develop a policy and system to track and report indemnities. Should the Department decide that it is not cost effective to track and report all indemnities, it should seek an amendment to section 76 of the Financial Administration Act to allow the exclusions.

In a management letter to the Deputy Provincial Treasurers at the conclusion of the audit, it was recommended that the Treasury Department develop a policy, and related system, for the identification and reporting of indemnities.

Guarantees and indemnities

Reporting losses as program costs of departments

Losses arising from guarantees and indemnities are not appropriately disclosed in the Province's Public Accounts.

Losses arising from guarantees and indemnities are recorded as expenditure in the consolidated financial statements of the Province when management determines that the Province will likely be called upon to make payment. In other words, losses are recorded on the accrual basis of accounting. These losses, which in 1992-93 amounted to approximately \$120 million, are included in the Statement of Budgetary Revenue and Expenditure as an expenditure described as valuation adjustments.

However, the valuation adjustments are not associated with a particular program or department. Including losses from guarantees and indemnities with other departmental expenditures would provide a more accurate cost of a department's programs thus enabling decisions to be based on true costs. For example, a major part of the cost of the Student Loan Program is the cost of remissions and write offs currently included in valuation adjustments.

In a management letter to the Deputy Provincial Treasurers at the conclusion of the audit, I made the following recommendation:

Treasury Department - Guarantees and indemnities

Recommendation No. 10

It is recommended that losses arising from guarantees and indemnities be included in the consolidated and General Revenue Fund financial statements as expenditures of the departments which initiated the granting of the guarantees and indemnities.

Alberta Heritage Savings Trust Fund
year ended March 31, 1993

Review of the Fund

I reported the need for a review of the Fund in my 1991-92 annual report (page 37). The Government accepted the recommendation and I understand that a review is expected to commence in early 1994.

The Heritage Fund's stated objectives have not changed since its inception in 1976. However, economic conditions have changed significantly.

The Heritage Fund was originally funded by annual transfers of non-renewable resource revenue received by the Province. However, the Province is no longer able to save a portion of its non-renewable resource revenue. All of the Heritage Fund's net income is now transferred to the General Revenue Fund. Also, the Province's debt now exceeds the total amount of the assets held by the Fund.

What is needed, I believe, is an analysis of the costs and benefits of the Province maintaining both investments and debt.

In a management letter to the Deputy Provincial Treasurers, I again made the following recommendation:

> Alberta Heritage Savings Trust Fund - Review of the Fund
>
> **Recommendation No. 11**
>
> It is recommended that the Treasury Department initiate a review of the Alberta Heritage Savings Trust Fund to determine whether the Heritage Fund assets are being used in the most effective manner in relation to the Province's overall financial objectives.

Alberta Insurance Council
year ended March 31, 1993

Compensation for losses

In my 1991-92 annual report (page 83), I indicated that the Alberta Insurance Council does not have legislative authority to compensate certain insurance policyholders for loss. This state of affairs persists.

On June 2, 1992, the Council, with the approval of the then Department of Consumer and Corporate Affairs, announced a plan to provide compensation for losses sustained by individuals as a result of insurance policies issued by a company named Bench

Insurance Agencies. The Council did not have the legislative authority to provide this compensation.

Compensation claims and related costs recorded in the Council's financial statements amounted to $201,879 for the year ended December 31, 1992. The financial statements also acknowledged that the Council did not have the legislative authority to make compensation payments.

When responding to my 1991-92 recommendation, the government indicated that the legislation would be amended to provide the authority to make such payments.

As the legislation had not been amended, in a management letter to the Chairman of the Insurance Council at the conclusion of the audit, it was again recommended that the Council obtain legislative authority to provide compensation for losses by policyholders. Alternatively, it was recommended that the Council adhere to existing legislation.

Provincial Judges and Masters in Chambers Pension Fund
year ended March 31, 1993

Creation of a regulated fund without authority

In my 1991-92 annual report (page 41), I recommended that the Treasury Department seek express legislative authority for the Provincial Judges and Masters in Chambers Pension Fund.

The Financial Administration Amendment Act, 1993 which came into force in October 1993 provides legislative authority for the Fund.

Treasury Branches Deposits Fund
year ended March 31, 1993

In addition to the annual financial statement audit, my staff completed an examination of the systems used to identify, report on and manage problem loans.

Loan monitoring information

Information needed to monitor the status of loans is not always obtained, or is not obtained promptly.

Loan agreements and banking practices require borrowers to periodically provide operating and other financial information to Alberta Treasury Branches. The information is needed to assess whether or not borrowers are still financially capable of repaying their loans.

Borrowers do not always provide the necessary information, or do not provide it promptly. Also, in most of these instances there is no evidence to show what efforts have been made to obtain the missing information. Lack of information may be an indication that borrowers are experiencing financial difficulty.

When loans are in arrears or otherwise in default, it is prudent and reasonable to require the borrower to provide financial information frequently, perhaps even monthly. This information can be used to monitor and assess whether the default is likely to be temporary. However, some of the loan files that are in arrears show no evidence that additional information has been requested. In such cases, and in cases of where borrowers are beginning to experience financial difficulty, prompt action may be needed to reduce the risk of non-repayment.

In a management letter to the Superintendent at the conclusion of the audit, it was recommended that Alberta Treasury Branches improve the systems used to control the receipt of periodic financial information needed to monitor the status of loans.

I have since been informed that Alberta Treasury Branches will be implementing automated systems to monitor the receipt of information of this nature.

Environmental risk rating

Alberta Treasury Branches' assessment of environmental risk could be improved.

Under current Provincial legislation, Alberta Treasury Branches could become liable for site clean-up costs and/or fines if, as a result of foreclosure, it became the owner of property that is contaminated.

Alberta Treasury Branches uses an Environmental Risk Rating form to identify environmental risks and potential environmental liabilities associated with the operations of customers. The ratings are used when determining whether to advance a loan and when assessing the possible consequences of foreclosing on a loan that is in default. In practice, however, the rating form is not always completed properly and the information it contains is not always used. Some rating forms are not signed or initialled by a loan officer to show that they have been reviewed.

A further concern is that the questions on the form are very general. It is doubtful whether the questions can elicit all the information needed to assess the risks associated with the operations of all businesses that use substances that are environmentally harmful. Some of the chartered banks use more detailed forms to alert loan officers to their customers' potential environmental problems.

In a management letter to the Superintendent at the conclusion of the audit, it was recommended that Alberta Treasury Branches review the Environmental Risk Rating form to determine whether environmental risks are being adequately considered.

I have since been informed that Alberta Treasury Branches is reviewing the adequacy and effectiveness of this and other forms.

Other entities

Financial audits of the following were also completed:

391760 Alberta Ltd. - year ended March 31, 1993
473654 Alberta Ltd. - period ended December 31, 1992
496072 Alberta Ltd. and NFI Finance, Inc., Combined Financial Statements - period ended December 31, 1992
Alberta Capital Fund - year ended March 31, 1993
Alberta Heritage Foundation for Medical Research Endowment Fund - year ended March 31, 1993
Alberta Heritage Scholarship Fund - year ended March 31, 1993
Alberta Municipal Financing Corporation - year ended December 31, 1992
ARCA Investments Inc. - year ended March 31, 1993
Consolidated Cash Investment Trust Fund - year ended March 31, 1993
Credit Union Deposit Guarantee Corporation - year ended December 31, 1992
Farm Credit Stability Fund - year ended March 31, 1993
Land Purchase Fund - year ended March 31, 1993
Pension Fund - year ended March 31, 1993
Pension Plan Administration Fund - year ended March 31, 1993
S C Financial Ltd. - year ended December 31, 1992
S C Properties Ltd. - year ended March 31, 1993
Small Business Term Assistance Fund - year ended March 31, 1993
The Alberta General Insurance Company - year ended December 31, 1992
The Alberta Government Telephones Commission - year ended December 31, 1992
Treasury Revolving Fund - year ended March 31, 1993

Trust Funds

Trust funds under Provincial administration are not included in the Province's consolidated financial statements because the Province has no equity in them. At March 31, 1993, trust funds under administration amounted to $1,412 million. Summarized information of the funds making up this amount is provided in Note 7 to the consolidated financial statements.

Trust funds for which the Audit Office audits separate financial statements are reported on in section 2 of this report. The following trust funds were treated as a group of similar entities and sufficient audit work was performed on the group to support its inclusion in Note 7 to the consolidated financial statements at March 31, 1993:

ADVANCED EDUCATION AND CAREER DEVELOPMENT:

Advanced Education Endowment Funds
John Joseph Collett Memorial Scholarship Fund
E.R. Pendleton Estate Trust

AGRICULTURE, FOOD AND RURAL DEVELOPMENT:

Claude Gallinger Memorial Trust
Disputed Livestock Sales Proceeds Trust
National Tripartite Price Stabilization Program Trust Account
Wheat Board Money Trust
4-H Scholarships Trust Fund

COMMUNITY DEVELOPMENT:

Fort Dunvegan Historical Society Trust Fund
Gakken Dinosaur Exhibit Trust Fund
Interprovincial Games Trust Fund
C.O. Nickle Trust Fund
Turner Valley Gas Plant Trust Fund
Western Canada Games Trust Fund

EDUCATION:

Federal French Language Grants Fund
Mildred Rowe Weston Estate Trust
School for the Deaf Donations

ENVIRONMENTAL PROTECTION:

Junior Forest Warden Program Fund
Surface Reclamation Fund

FAMILY AND SOCIAL SERVICES:

Various Institutions Trust Accounts

HEALTH:

Various Institutions Trust Accounts

JUSTICE:

Correctional Institutions Trust Accounts
Impaired Driving Initiatives Trust Fund
Land Titles Offices Trust
Maintenance Enforcement Trust
Personal Property Security Assurance Fund Trust
Public Trustee - Estates and Beneficiaries Trust Accounts
Solicitors' Trust Account
Various Courts and Sheriffs' Offices Trust

LABOUR:

Extended Medical Benefits Plan Trust
Government of Alberta Dental Plan Trust

PUBLIC WORKS, SUPPLY AND SERVICES:

Security Deposits Trust Fund

TREASURY:

Bond and Coupon Accounts:
- Matured Interest
- Unpresented Debentures

Collection Practices Act Trust
Debtors Assistance Trust
Federal Goods and Services Tax Trust
General Trust Account
Insurance Companies Trust
Orderly Payment of Debts
Securities Act Trust
A.L. Sifton Estate
Ultimate Heir Trust Fund "A"
Ultimate Heir Trust Fund "B"

Department of Advanced Education and Career Development
year ended March 31, 1993

In addition to the annual financial audit, the following work was completed:

- An examination of methods used by some post-secondary education institutions to cost their programs and services.
- An examination of methods used by some post-secondary education institutions to determine their need for renewal of capital assets.
- An examination of systems used by the Alberta Vocational Colleges to manage and report cost-recovery programs.
- An examination of the Department's Information Technology function.
- An examination of the systems used to monitor costs, and measure the effectiveness of the Apprenticeship and Industry Training Program and the Employment Alternatives Program.

Costing of outputs

There is no common understanding of the costs of the outputs of the post-secondary education sector in the Province.

The Department's budget for 1993-94 is $1.2 billion. Over 75% of this amount represents grants to higher and further educational institutions which are managed by appointed boards. Grants are provided to 4 vocational colleges, 2 technical institutes, 11 public colleges, 4 universities, the Banff Centre, and 5 hospital based nursing schools. The Department's role as stated in its mission statement is "to provide the leadership, service and coordination necessary to ensure the efficient development and functioning of an effective system of advanced education responsive to the needs of all Albertans."

The Department does not have sufficient information on the cost of the outputs it funds. As a result, it does not have a way to assess and compare the performance of institutions. Measuring and reporting performance is the responsibility of management of the institutions. However, autonomy does not relieve the institutions of the responsibility to be accountable for their use of public funds. If the post-secondary education sector is to measure and report performance in a manner that will permit valid comparisons between institutions, there needs to be a coordinated approach to improving the systems that link costs and outputs.

The Department produces an annual statistical report which provides an assortment of revenue, expenditure, enrolment, and other data relating to the post-secondary education system. However, this data in isolation does not provide meaningful information to measure and compare the performance of institutions. For example, there is insufficient information to enable a reader of the report to determine the cost of producing a law graduate at one university as compared to another.

I believe that the Department must play a role in encouraging institutions to produce benchmarks which will enable sector-wide comparisons to be made, thereby identifying areas where improvements can be made.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Advanced Education and Career Development - Costing of outputs
>
> **Recommendation No. 12**
>
> It is recommended that the Department of Advanced Education and Career Development, in consultation with the post-secondary education institutions, establish a common method of determining and reporting costs of outputs of the post-secondary education institutions.

Amortization of capital assets

The financial statements of Alberta's universities, colleges, institutes and the Banff Centre do not reveal the annual cost of capital asset consumption in the delivery of programs and services. In other words, depreciation or amortization is not charged as an expense in determining financial results.

The post-secondary education institutions show only the historical cost of capital assets on their statements of financial position. The reality is that these assets have depreciated annually in value, and continuing to record them at their original cost is meaningless. Recording the amortization of capital assets is essential if the costs of educational programs and services are to be determined. Also, the amount of the cumulative amortization enables an assessment of the extent to which capital assets are reaching the end of their useful lives.

Capital asset consumption is one of the more significant costs in the post-secondary education sector. The recorded original cost of capital assets in the Province's post-secondary education sector is

more than $4 billion. The manner in which a capital asset was funded should not affect its accounting, disclosure or presentation; the use of a capital asset represents an expense, regardless of how it was funded, and whether or how it will be replaced. Any information on the total cost of programs and services is incomplete if the cost of capital assets consumed is ignored.

Information provided by post-secondary education institutions, at the request of the Department, indicates that over the ten years to 2001, the institutions will need to spend approximately $570 million to keep their capital facilities in sound condition, and to adapt them to evolving technological, educational and safety standards. However, the cost of facility renewal is not publicly disclosed.

In my opinion, the Department should provide the leadership necessary to assess ways for the institutions to report annually, in financial statements, the cost of facilities consumed in the delivery of programs and services. I believe that such reporting will promote discussion on the potential magnitude and responsibility for facility renewal across the sector. Over time, it will also assist the Province in determining the long-term funding needs of the institutions.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Advanced Education and Career Development - Amortization of capital assets
>
> **Recommendation No. 13**
>
> It is recommended that the Department of Advanced Education and Career Development require post-secondary education institutions to amortize their capital assets so that the cost of educational programs and services can be determined.

At the direction of the Department of Health, publicly funded hospitals in Alberta now depreciate their capital assets.

Accounting principles for post-secondary education institutions

In my 1991-92 report (page 52), I recommended that the Department encourage post-secondary education institutions to accrue the liabilities for vacation pay and other staff benefits in their annual financial statements. At the end of the 1992 reporting year, a total of $47.8 million for such liabilities was not recorded in the financial statements of the institutions.

The Department did not accept my recommendation, but did acknowledge that if such accruals became widely accepted in

post-secondary education institutions across Canada, it might be necessary to reconsider its position.

For the year ended March 31, 1993, all of the Alberta universities were consistent in accruing vacation pay and staff benefit liabilities. In addition, the 1992-93 Consolidated Financial Statements of the Province of Alberta, for the first time, included the liability for employees' vacation pay and long-term disability benefits. This accounting policy change was in response to recommendations by my Office and the Alberta Financial Review Commission. Also, the 1992-93 financial statements of the General Revenue Fund and Provincial agencies disclosed the full cost and related liability for vacation pay of employees, including employees of the Department of Advanced Education and Career Development.

Despite being the only Provincial agencies not to recognize their vacation pay liability, eleven of the Province's thirteen public colleges and technical institutes decided to accept a qualified Auditor's Report rather than accrue the vacation pay liability. These qualifications are detailed on page 172 of this report.

I am pleased to report that Fairview College and Grande Prairie Regional College changed their accounting policies for the year ended June 30, 1993, and recorded approximately $1.8 million of vacation pay liabilities.

In a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

> Department of Advanced Education and Career Development - Accounting principles for post-secondary education institutions
>
> **Recommendation No. 14**
>
> It is recommended that the Department of Advanced Education and Career Development encourage those post-secondary education institutions that have not already done so to accrue liabilities for vacation pay and other staff benefits in their annual financial statements.

Alberta Vocational Colleges

The Alberta Vocational Colleges do not have the information necessary to determine the cost of cost-recovery programs.

Some of the programs offered by Vocational Colleges are provided on a cost-recovery basis. During the year ended March 31, 1993 the Colleges recovered approximately $5.8 million for such programs. However, the cost-recovery program calculation did not consider all

costs of facilities or equipment usage, because the Department did not have complete information. Additional costs incurred by the Department of Public Works, Supply and Services on behalf of the Colleges were not considered in determining the cost of the programs.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department determine the full costs of delivering cost-recovery programs at Vocational Colleges.

The Department has since informed me that its three-year business plan will address this issue. I will review the matter in future audits.

Information technology

The Department's methods of managing its information system needs could be improved.

The Department's budget for development, acquisition and maintenance of computer systems for 1992-93 was approximately $4 million. Despite the magnitude of this amount, management did not have an effective process to ensure that the development of new computer systems would address the Department's need for system compatibility and consistency in data collection. Also, the Department did not define standards for information and database management software, thereby resulting in inefficiencies.

These types of concerns could have been addressed with appropriate user representation on committees established to direct systems development activities. For example, committees did not include senior management, whose knowledge of the Department's long-term objectives could have been helpful. Also, some potential users of the systems were not directly represented on the committees.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department improve the methods it uses to manage its information systems.

The Department has since informed me that a number of initiatives have been established to improve the management of information systems. I will review this matter in future audits.

Apprenticeship and Industry Training Program - Program costing

The Department does not make effective use of available information to determine the cost of training apprentices.

Apprenticeship training is an industry-based system which combines skills oriented on-the-job training with technical training provided mainly through publicly funded post-secondary education institutions.

The Program is dependent on approximately $88 million in funding, of which about $25 million represents the federal government's share.

The Province's expenditure of $63 million includes approximately $48 million which is spent on technical training of apprentices at post-secondary institutions. The institutions provide the Department with certain information on the number of trainees and related costs. This information indicates significant variances in training costs per apprentice at the various institutions. The variances are mainly due to the institutions' different methods of determining costs. Because of concerns about the reliability and consistency of the information available, the Department does not use it to monitor or evaluate the programs offered at each institution. The Department needs to outline to the post-secondary education institutions its information requirements so that the cost and performance of the apprenticeship programs can be monitored and compared.

The Province spends approximately $15 million to administer the Apprenticeship and Industry Training Program through various regional offices. However, the Department does not have proper information to compare the costs of operation of each of the offices. As a result, it cannot assess the efficiency of the regional offices. To facilitate the comparison of costs and relative efficiencies by region, the Department should determine the actual administration costs by accumulating and reporting regional delivery costs by program. This would help the Department to assess the Program, and eliminate inefficiencies.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Advanced Education and Career Development - Apprenticeship and Industry Training Program, Program costing
>
> **Recommendation No. 15**
>
> It is recommended that the Department of Advanced Education and Career Development improve the accuracy and consistency of costing information for the Apprenticeship and Industry Training Program.

Apprenticeship and Industry Training Program - Performance expectations

The Department has not defined and communicated performance expectations to regional management.

Regional managers determine the delivery of the Program based on their perceived regional priorities. However, the Department should define and communicate Provincial performance expectations to the regions to encourage activities that are consistent with these expectations.

The nature and extent of regional management involvement in delivering the Program varies between regions. In the absence of defined expectations, there is a risk that the objectives of the Program may not be met.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department establish performance expectations for the Apprenticeship and Industry Training Program.

Employment Alternatives Program

The Department does not have information to assess the performance of the Employment Alternatives Program.

The Employment Alternatives Program is designed to remove barriers to employment faced by clients who are referred to the Program by the Department of Family and Social Services. The cost of the Program is approximately $12 million, including payments to independent contractors engaged by the Department to provide the clients with necessary training so that they become employable.

The Department does not have information on the extent to which contractors were successful in helping clients overcome the specific employment barriers faced. Information on contractor successes will help the Department of Family and Social Services and the

Department of Advanced Education and Career Development to improve client selection and referral by matching client needs with contractors' expertise. I believe decision making processes would improve if managers were provided with better information.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department improve the quality and timeliness of information on program performance.

The Department has since informed me that its three-year business plan will address this issue. I will review the matter in future audits.

Other entity

A financial audit of the **Students Loan Fund** was also completed for the year ended March 31, 1993.

UNIVERSITIES, RELATED ENTITIES AND THE BANFF CENTRE

The Provincially-owned universities, related entities and The Banff Centre operate under the authority of the Universities Act and the Banff Centre Act respectively. The financial statements of these Provincial agencies are not included in the Province's consolidated financial statements. The Minister of Advanced Education and Career Development, who administers the aforementioned Acts, tables the audited financial statements of these agencies each year in the Legislative Assembly.

Athabasca University
year ended March 31, 1993

In addition to the annual financial audit, financial audits of the following were also completed for the year ended March 31, 1993:

Athabasca University Development Institute
Athabasca University Foundation

Protection of information on microcomputers

The University has not established standards for safeguarding information on its microcomputers.

The University owns approximately 300 stand-alone microcomputers, which are used by staff and tutors in various locations.

A number of the microcomputers hold important, sensitive and confidential information about students and their academic progress. However, the University has not established standards for information access, back-up, storage and recovery procedures. In order to adequately safeguard data, standards pertaining to the use of microcomputers should be established.

In a management letter to the President at the conclusion of the audit, it was recommended that the University improve procedures relating to protection of information on its microcomputers.

The University has responded that policies and procedures dealing with the matters raised will be implemented during 1993-94.

The Banff Centre for Continuing Education
year ended March 31, 1993

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used to provide program revenue and cost information.

- An examination of the systems used to manage capital resource activities, including facility renewal.

Costing systems

The method used by The Banff Centre to determine the cost of management courses offered by its Centre for Management could be improved.

For the year ended March 31, 1993, the Centre for Management's expenditures exceeded revenues by $308,000. This loss could not be attributed to specific courses because the Centre does not have information on the cost of producing individual courses. For example, payroll expenditures of $775,000, and other expenditures of $365,000 were not allocated to individual courses. The Centre should compute the total costs of producing individual courses for comparison to the course fees that it charges.

In a management letter to the Centre's President at the conclusion of the audit, it was recommended that the Centre improve the methods used to determine the full cost of courses offered by the Centre for Management.

The President has indicated that substantial progress has been made in achieving this objective, and that a comprehensive system will be in place by December 31, 1993.

The University of Alberta
year ended March 31, 1993

In addition to the annual financial audit, my staff completed:

- An examination of the systems to manage the allocation, use and reporting of capital resources.

- Financial audits of the following for the year ended March 31, 1993:

  Alberta Microelectronic Centre
  Telecommunications Research Laboratories
  The University of Alberta (1991) Foundation
  The Laser Institute

Subsidiary and affiliated organizations

The University has not established appropriate accountability relationships for its subsidiary and affiliated organizations.

The most recent analysis done in 1987 identified that the University has a total of over eighty subsidiary companies, centres and other affiliated organizations. Most of these are an integral part of the University, and are accounted for as such.

Nine organizations are incorporated companies. However only three of these are disclosed by way of note in the University's financial statements. In the other instances, responsibility for the organizations' accountability to the University has not been established. In addition, accounting and reporting requirements have not been fully considered and documented.

The manner in which subsidiary companies and centres conduct their affairs may have an impact on the University. The operations or actions of the companies or centres could incur liabilities which the University would be responsible for. Action by these organizations may also have an impact on the University's reputation. The University needs to establish procedures to ensure the accountability of these organizations. The University also needs to formalize the accounting and reporting requirements for its subsidiaries.

In a management letter to the Vice-President of Finance and Administration of the University at the conclusion of the audit, it was recommended that The University of Alberta review its subsidiary companies and centres and establish appropriate accountability, accounting and reporting requirements.

The Vice-President has indicated that procedures have been put in place to review all incorporated entities and determine appropriate procedures. I will review this matter in future audits.

The University of Calgary
year ended March 31, 1993

In addition to the annual financial audit, my staff examined the University's systems to identify and monitor facility renewal needs.

Financial audits of the following related organizations were also completed for the year ended March 31, 1993:

The Arctic Institute of North America
The University of Calgary Foundation
University Technologies International Inc.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1993:

The University of Lethbridge
The University of Lethbridge Foundation

PUBLIC COLLEGES AND TECHNICAL INSTITUTES

The Provincially-owned public colleges and technical institutes operate under the authority of the Colleges Act and the Technical Institutes Act respectively. Although these post-secondary education institutions are Provincial agencies, their financial statements are not included in the Province's consolidated financial statements. The Minister of Advanced Education and Career Development, who administers the aforementioned Acts, tables the audited financial statements of these institutions each year in the Legislative Assembly.

Alberta College of Art
year ended June 30, 1993

Investments

In my 1991-92 annual report (page 59), I commented on the loss of approximately $362,000 because of the inadequate review, approval and monitoring of investments. I recommended that the College improve its management of investments.

The College has now reviewed and amended the investment policy, and has improved its management of investments.

Expense claims

In my 1991-92 annual report (page 60), I recommended that the College improve the documentation and approval procedures for expense claims, and restrict the use of College credit cards.

Management has now reviewed and improved the expense claim procedures, and has cancelled all College credit cards.

Fairview College
year ended June 30, 1993

Management of programs and courses

In my 1991-92 report (page 61), I commented on the need for better information to measure the success and relevance of programs and courses. I recommended that the College obtain and analyze pertinent information.

The College has begun to obtain the recommended information, starting with a survey of the employment and career progress of its graduates. Analysis of this survey and other information will help the College to determine whether its programs and courses are successfully meeting identified needs. I will review progress on this matter in future audits.

Grande Prairie Regional College
year ended June 30, 1993

In addition to the annual financial audit, my staff examined the systems used by the College to manage student enrolments.

Management of programs and courses

In my 1991-92 report, (page 61), I commented on the College's need to improve the existing systems by obtaining and analyzing information to measure the success and relevance of programs and courses. The College agreed to review my recommendation. I will examine the progress in future audits.

Management of student enrolments

The College's method of monitoring student enrolment does not provide for the maximum access to programs and courses.

College programs usually consist of courses extending over more than one year. An analysis of applications for courses offered subsequent to the first year could be used to explain student retention patterns. Such an analysis could identify areas where improvements to programs and services could be made. However, the College does not analyze the available information.

A major portion of the College's enrolment is for university transfer courses. In 1993-94, applications for these courses increased by about 7% over the preceding year. Academic staff prepare a tentative course timetable which attempts to accommodate student demand. However, the College does not promptly summarize data on student demands for courses, and availability of spaces. As a result, the College cannot quickly compare the course timetable to student demand, and make adjustments to the timetable to maximize student access to courses.

The ratio of confirmed registrations to applicants is one indication of the College's success in attracting students. Analyzing this information by individual programs or student groups may indicate areas where the College could modify plans to meet student demand.

In a management letter to the Chairman of the Board of Governors, it was recommended that the College implement a system to maximize student access to programs and courses.

Keyano College
year ended June 30, 1993

In addition to the annual financial audit, my staff completed an examination of the methods used by the College to determine and report the costs of its programs and services.

Costs of programs and services

The methods used by the College to determine and report the costs of its programs and services could be improved.

The College considers only direct costs in determining the costs of its programs and services. Other costs such as administrative overhead, facility maintenance, utilities, and the costs of capital asset consumption are often excluded. As a result, information available to College management for decision making, and also as reported in the financial statements, is not complete.

For instance, the College does not have complete information on the total costs of its Ancillary Services. For a number of years, the Ancillary Services, including the theatre, have incurred losses. For the year ended June 30, 1993, the reported loss of Ancillary Services was $427,784. This loss was funded by the Operating Fund. However, if all costs attributable to Ancillary Services, including overhead, were considered the loss would have been larger. For example, the reported operating loss of the College's theatre operations was $226,493. However, in determining this loss, costs of utilities, insurance, taxes, finance and administration, and the cost of asset consumption were not included. Had these costs been considered, my staff estimate that the loss on theatre operations would have been approximately $651,000. By contrast, other components within Ancillary Services were allocated a portion of overhead costs. For instance, student residences were charged with certain overhead costs such as utilities, insurance, taxes and maintenance.

Availability of information on the full costs of programs and services would improve accountability and help management make informed decisions at a time when there are competing demands for resources. Cost information is one of the key factors in the assessment of the value of programs and services.

In a management letter to the Chairman of the Board of Governors at the conclusion of the audit, I made the following recommendation:

> Keyano College - Cost of programs and services
>
> **Recommendation No. 16**
>
> It is recommended that Keyano College improve the way it determines and reports the costs of its programs and services so that informed decisions can be made.

Lakeland College
year ended June 30, 1993

Internal control

The College did not take prompt action to correct identified deficiencies in internal control procedures.

Financial transactions at some College locations bypassed established internal control procedures. Management was aware of the transactions involved, but had not taken corrective action.

Examples of findings during the audit were:

- at one location, cash and cheques were not adequately secured,
- there were delays of up to one month in recording cash receipts,
- several pre-numbered College receipts books could not be located, and
- procedures to verify the accuracy of hourly wages paid were not adhered to.

Lack of attention to internal control procedures can affect management's reliance on the College's systems.

In a management letter to the President at the conclusion of the audit, it was recommended that the College continue to review internal controls and take prompt corrective action where controls do not operate as intended.

Northern Alberta Institute of Technology
year ended June 30, 1993

Obsolete assets

The Institute's systems to identify, value and dispose of obsolete assets could be improved.

The recorded cost of capital assets includes a significant number of assets no longer in productive use. The Institute's practice is to physically segregate these assets pending a decision on disposal or further use. An examination of capital assets indicated that obsolete assets remain in the accounting system longer than necessary with a resultant overstatement in the recorded value.

Management needs to implement a process whereby assets taken out of productive use are carefully tracked, and timely decisions are taken on disposition and valuation.

In a management letter to the President at the conclusion of the audit, it was recommended that the Institute improve the process to identify and value assets no longer in productive use.

In response to audit concerns, management agreed to establish an allowance of $1.2 million for obsolescence in the 1992-93 financial statements.

Olds College
year ended June 30, 1993

Costing systems

In my 1991-92 annual report (page 66), I recommended that the College allocate indirect costs, and provide revenue detail in the costing system to provide more information to support management decisions.

The costing system used by the College still does not provide sufficient information for management to determine the extent to which ancillary services and cost-recovery projects are contributing to, or being subsidized by, the College's instructional operations.

The College has, however, commenced development of a computer system to provide the needed costing information. I will review the progress during future audits.

Red Deer College
year ended June 30, 1993

In addition to the annual financial audit, my staff completed an examination of the costing systems for ancillary and cost-recovery programs.

Overhead costs

The costing system does not provide College management with information to determine if costs relating to ancillary and cost-recovery programs are fully recovered, or to what extent these programs are subsidized by the College's instructional programs.

In a management letter to the President at the conclusion of the audit, it was recommended that the College review and improve the system to determine the full cost of its ancillary services and cost-recovery programs.

Other entities

Financial audits of the following were also completed for the year ended June 30, 1993:

Grant MacEwan Community College
Grant MacEwan Community College
- Community Enrichment Project
Medicine Hat College
Mount Royal College
Mount Royal College Foundation
Mount Royal College Day-Care Society
Southern Alberta Institute of Technology
Lethbridge Community College, and

Grant MacEwan Community College Day Care Centre for the year ended December 31, 1992, and

Public Colleges Foundation of Alberta for the period ended March 31, 1993

Department of Agriculture, Food and Rural Development
year ended March 31, 1993

In addition to the annual financial audit, the following work was completed:

- An examination of the Department's planning processes.
- An examination of the systems used by the Department to measure and report on the costs of the Farm Credit Stability Program.

Farm Credit Stability Program

There are no procedures to measure and report on the reasonableness of the costs incurred for the Farm Credit Stability Program.

The Farm Credit Stability Program was established in 1986 to provide long-term fixed-rate financing to Alberta farmers at reasonable costs and under favourable terms. These loans were provided through chartered banks, credit unions and Alberta Treasury Branches.

At March 31, 1993, loans outstanding under this Program totalled $1.563 billion. No further amounts are being advanced under the Program. All loans were provided at a fixed interest rate of 9% and carry a partial guarantee by the Province. The Province pays an administration fee to the financial institutions based on the balance of loans outstanding. This fee for the year ended March 31, 1993, amounted to approximately $49 million. Under existing agreements with the financial institutions, administration fees for the five years commencing July 1, 1994 are to be renegotiated by June 30, 1994.

To evaluate the reasonableness of the costs associated with this Program, all significant costs need to be identified. The net cost of the Farm Credit Stability Program as recorded in the Fund's financial statements does not include a provision for loan losses. The provision is included in valuation adjustments of the General Revenue Fund.

Full cost information is essential to determine if the cost of providing the loans is reasonable. One of the ways to determine reasonability is to compare the costs of this Program to the costs of alternative means of delivering the Program, such as direct lending through the Alberta Agricultural Development Corporation, or interest rebates and interest shielding programs. Such information would be useful prior to renegotiating the administrative fees

This information could also be useful in evaluating existing and proposed agricultural programs.

In a management letter to the Deputy Minister of Agriculture, Food and Rural Development at the conclusion of the audit, I made the following recommendation:

Department of Agriculture, Food and Rural Development - Farm Credit Stability Program

Recommendation No. 17

It is recommended that the Department of Agriculture, Food and Rural Development measure and report on the reasonableness of the costs to operate the Farm Credit Stability Program.

Irrigation District Rehabilitation Endowment Fund - Management of funds

Monies held in the Irrigation District Rehabilitation Endowment Fund are not earning as much income as they could be.

The Irrigation District Rehabilitation Endowment Fund was established in August 1992, with a cash balance of $10 million. At present, the $10 million is invested in relatively liquid investments.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department formulate an investment strategy, to maximize the investment income and minimize risk, for the Irrigation District Rehabilitation Endowment Fund.

Alberta Agricultural Development Corporation
year ended March 31, 1993

Compliance with generally accepted accounting principles

Inadequate accounting systems are preventing the Corporation from accounting for interest income in accordance with generally accepted accounting principles.

It is generally accepted that interest income should not be treated as revenue in financial statements unless, at the time it is billed or accrued, ultimate collection is reasonably assured. A Public Sector Accounting Statement issued by the Canadian Institute of Chartered Accountants in April 1993 confirms this principle.

Despite this principle, the Corporation includes in revenue all interest accrued on loans, even though the ultimate collection of some of this interest is in doubt. To compensate for this treatment, the provision for doubtful accounts is increased to cover accrued interest where collectibility is doubtful. As a result, the Corporation's operating results and deficit are properly stated in the financial statements. Revenues and the provision for doubtful

accounts, however, are both overstated by an equal amount, mainly because the Corporation's accounting systems cannot determine the necessary adjustment.

I qualified my report on the Corporation's 1992-93 financial statements as required by generally accepted auditing standards, because both revenues and expenditures were overstated.

The April 1993 Public Sector Accounting Statement also established accounting principles for loans with significant concessionary terms. These are loans with interest rates that are significantly below the lender's average cost of borrowing at the date the loans were made. The concessionary portion of loans must now be accounted for by discounting the balance sheet values of the loans, and recording the discount as an expense in the years the loans are issued. In effect, the benefit conferred by the reduced interest rate is treated as a grant from the lender to the borrower.

Some of the Corporation's loans outstanding at March 31, 1993 were deemed to be concessionary, and were discounted accordingly. There is a concern, however, that if future program changes result in the Corporation issuing significantly more concessionary loans, the Corporation's present accounting systems would likely be unable to handle the volume and variety of discounting calculations needed. This would lead to distortions to the Corporation's annual operating results and a further qualification of my report on the financial statements.

Departures from generally accepted accounting principles are sometimes viewed as mere technicalities of accounting. It must be remembered, however, that recognizing interest revenue on non-performing loans obscures the true rate of return on the loan portfolio. If concessionary loans are not discounted, they are overvalued, and program costs are understated. All of this is important management and accountability information.

In a management letter to the President at the conclusion of the audit, it was recommended that the Corporation account for interest accrued on loans where collection is not reasonably assured in accordance with generally accepted accounting principles, and acquire a loan accounting system, or improve the existing system, to provide the information needed to report on interest revenue and concessionary loans.

The Corporation has acknowledged that its accounting systems are unable to handle the requirements of the Public Sector Accounting Statement relating to interest income recognition and concessionary loans. Due to budget constraints, however, the Board of Directors

and the Minister have decided not to replace the Corporation's loan accounting system until 1996-97.

Alberta Hail and Crop Insurance Corporation
year ended March 31, 1993

Insurance coverage adjustments

Some of the coverage adjustments used to calculate insurance coverage may be excessive. As well, the Corporation is unable to provide a complete history of how most farmers' coverage adjustments are calculated, and the reasons for subsequent changes.

Coverage adjustments are factors that are applied to area average yields to arrive at the yield that farmers can insure under the Crop Insurance and Gross Revenue Insurance Plan. They are re-calculated each year by comparing the farmer's historical yields to their area average yields. By regulation, Alberta has limited annual decreases in coverage adjustments to five percent, even where the moving average yield calls for a larger decrease.

The coverage adjustments of most farmers are based on their previous crop yields as measured by the Corporation's adjusters. Some farmers, however, have been allowed to establish coverage adjustments based on yields shown by their own production records. In some cases, these yields were much higher than their area's average yields or their own subsequent yields which may indicate that the farmers' production records were inaccurate, and that these farmers are being allowed to insure excessive yields. The practice of limiting annual changes to coverage adjustments to five percent is delaying the correction of excessive coverages.

To maintain actuarial validity, changes to underlying facts and calculation methods for coverage adjustments need to be made retroactively, as though the new method had always been in place. When such changes are made, the Corporation overwrites the data on its computer system, and often does not retain documentary evidence to support the changes. Without this information and a history of changes, it can be difficult or impossible to determine if the current coverage adjustment is correct. Corporation staff were unable to demonstrate satisfactorily how some coverage adjustments were determined.

Federal regulations require the Corporation to demonstrate, by April 1993, that the total amount of each crop it insures annually does not exceed the expected harvest of that crop. The Corporation, however, has been unable to do this, probably because of excessive coverage adjustments. As a result, the federal government is likely to withhold approximately $11 million in matching premiums next

year, and, based on the average of production losses of eight of the last ten years, approximately $16 million in indemnities. This additional cost will have to be paid by Alberta.

In a management letter to the Corporation's President at the conclusion of the audit, I made the following recommendation:

Alberta Hail and Crop Insurance Corporation - Insurance coverage adjustments

Recommendation No. 18

It is recommended that the Alberta Hail and Crop Insurance Corporation review its practices governing when and how coverage adjustments should be allowed and changed, and retain information to justify such changes.

The Corporation has since responded that, in future, individual files will contain documentation of changes.

Operations

The Corporation is not applying its operating policies in a consistent manner. There are opportunities to reduce costs and deliver program benefits more consistently by adopting less flexible policies, adhering to policies more closely, and retaining better documentation.

As indicated above, it appears that some farmers are being allowed to insure crop yields that are excessive. This probably results in an additional cost to the Corporation, that the federal government has refused to share. It also means that benefits under the Gross Revenue Insurance Plan are probably being delivered inconsistently. The following are other areas where improvements are needed to avoid additional costs and distortion of program benefits:

<u>Deadlines</u>

Allowing deadlines to be exceeded increases the risks that the deadlines were designed to manage, with a consequent cost to the Corporation.

Regulations and the Corporation's insurance contracts contain many deadlines, most of which are designed to reduce risks. For example, the risk of paying claims on crops that have had insufficient time to grow is reduced by setting deadlines for seeding. Setting deadlines for farmers to ask for Corporation adjusters to measure their yields can help ensure that production is measured reasonably near to harvest time. The later after harvesting that it is assessed, the

greater the risk of inaccurate measurement. Deadlines, however, can achieve their intended purposes if they are relaxed only in very exceptional circumstances.

In practice, the Corporation frequently allows some deadlines to be exceeded. Even where the Corporation has a contractual right to levy a penalty for an exceeded deadline, it rarely does so.

Appeals

The Corporation's insurance contracts give farmers five days from receipt of the adjuster's report to file notice of appeal against any of the figures that will determine the claim. Otherwise, according to the contracts, "the claim shall be determined by the Corporation on the basis of the adjuster's report." The Corporation, however, often allows yields to be remeasured, even though the farmer has not filed a formal notice of appeal or the request to re-measure is received well after the five day limit.

Remeasuring yields well after the harvest can be difficult, time-consuming and expensive. Successful appeals result in new data having to be filed and updated, and new documentation issued. For this reason, one province has withdrawn the right of farmers to appeal once they have signed the post harvest report. The Corporation could undoubtedly reduce its costs by acting only on appeals filed by the deadline. Alternatively, the Corporation could charge farmers for the cost of remeasuring and reprocessing, but perhaps waive the charge if the remeasurement increases the claim by at least the cost of remeasuring and reprocessing.

File documentation

When farmers' files are incomplete or where representations made by farmers are difficult to verify, they are usually given the benefit of the doubt in any dispute about facts.

When Corporation staff complete reports of seeded crops for farmers based on the farmers' own documentation of what was seeded, copies of that documentation are rarely retained on the Corporation's files. If the farmer subsequently disputes the figures, the Corporation usually accepts the revised figures, and issues a new statement of coverage and premium. Retaining copies of the documentation supporting the original figures could help the Corporation to determine responsibility for any errors and to assess a penalty, if appropriate.

In a management letter to the Corporation's President at the conclusion of the audit, I made the following recommendation:

> Alberta Hail and Crop Insurance Corporation - Operations
>
> **Recommendation No. 19**
>
> It is recommended that the Alberta Hail and Crop Insurance Corporation enforce its policies and exercise its contractual rights, thereby contributing to more consistent delivery of program benefits and cost-savings.

The Corporation has since indicated that farmers will in future be required to appeal in writing within five days of receiving the adjuster's report. In addition, the National GRIP Committee has agreed to a policy whereby late filing of reports of seeded crops will be subject to a 20 percent reduction in coverage while full premium charges will remain.

Gross Revenue Insurance Plan - compliance with contracts

In my 1991-92 annual report (page 73), I commented on excess benefits paid to farmers caused by calculating acres eligible for coverage in a manner that was inconsistent with the terms of the insurance contracts. I recommended that the Corporation comply consistently with the insurance contracts it enters into with farmers, or alternatively, develop a new contract that reflects accurately the Corporation's policies and intentions for administering the Gross Revenue Insurance Plan. The insurance contract for the Plan has since been amended to be consistent with the Corporation's administrative policies.

Program criteria

In my 1991-92 report (page 77), I recommended that the purposes and goals of the Gross Revenue Insurance Plan program be clearly defined and precise measurable criteria established which can be used to further develop administrative policy and to assess and report on the success of the program.

The Gross Revenue Insurance Plan program is now in its third year. During the first two years, the federal and provincial governments contributed $474 million in matched premiums, and must still cover the $255 million accumulated deficit. These are significant expenditures of public monies, yet there has been no objective assessment of how well the program is achieving its intended objectives.

One important objective of the program is farm income stability, though there is no definition of this term to enable it to be measured. It implies that the program is designed to alleviate

financial distress caused by low farm incomes during years when yields are low or prices are depressed. Although these conditions have persisted throughout the past two years, program benefits have been paid to farmers who were experiencing little financial distress. As evidence of the lack of financial distress is the number of farmers who asked for their payments to be deferred until the next tax year. Some even returned their cheques, asking them to be reissued later. At one point in time, more than $20 million of these deferred benefit payments had accumulated.

The Gross Revenue Insurance Plan calls for a complete review of the program's effects by 1995. In view of the amount of money involved, and the Province's recently announced plans to assess the results and performance of programs, work needs to be done on establishing measurement criteria.

In a management letter to the Corporation's President at the conclusion of the audit, it was again recommended that the purposes of the Gross Revenue Insurance Plan program be clearly defined and measurement criteria be established that can be used to assess the program's success in relation to its costs.

The Corporation has responded that a review of the program will precede any decision on its future. It is also considering the issue of whether the Corporation should be providing farmers with a means to defer their income tax.

Gross Revenue Insurance Plan - operating guidelines

Alberta farmers can opt out of the Gross Revenue Insurance Plan program under more favourable financial arrangements than farmers in some other provinces.

An increasing number of farmers are terminating their enrolment in the program. The Plan allows them to terminate by giving three years notice, or to terminate immediately if they repay all amounts received by them in excess of premiums paid. If they terminate immediately, they are required to repay any overpaid interim claims. The National Committee established under the Plan has confirmed that interim overpayments must be collected from farmers who terminate immediately, but has not specified the effective date for calculating such overpayments. Not specifying the effective date has created uncertainty.

The Corporation calculates overpaid interim claims using the commodity prices in effect when the terminating farmers received their last interim payment. Some provinces, however, use the final commodity price for the crop year. It is unclear which practice satisfies the Committee's guideline. When commodity prices are rising, which is when farmers are more likely to terminate, the

Corporation's way of calculating overpayments results in smaller repayments by the terminating farmers.

In a management letter to the Corporation's President at the conclusion of the audit, I made the following recommendation:

Alberta Hail and Crop Insurance Corporation - Gross Revenue Insurance Plan, operating guidelines

Recommendation No. 20

It is recommended that the Alberta Hail and Crop Insurance Corporation ask the National Committee established under the Gross Revenue Insurance Plan agreement to issue regulations or interpretational guidelines covering those aspects of the Plan that remain uncertain as to meaning or interpretation, particularly those relating to farmers who leave the program.

The above recommendation is similar to one made in my 1991-92 report (page 73). I was concerned that the methods being used to calculate acres eligible for coverage, and some other terms of the Corporation's standard insurance contract, did not comply strictly with the Plan agreement. I recommended that the National Committee be asked to resolve these uncertainties. I also recommended (page 69) that the Department of Agriculture resolve uncertainties regarding its responsibility for representing Alberta's interests relating to the Gross Revenue Insurance Plan program.

The Province's interests are represented on the National Committee by the Department, though I understand that consideration is now being given to having the Corporation represented on the Committee. I am pleased to acknowledge that the other concerns outlined in the preceding paragraph have now been resolved, though not all through the Committee.

Compliance with federal/provincial agreements

In my 1991-92 report (page 75), I commented on certain Corporation practices that were not in compliance with federal/provincial insurance agreements. I recommended that these practices be discontinued or that the Corporation seek amendments or interpretational regulations to legitimize the practices.

I am pleased to acknowledge that the Corporation has resolved the specific concerns that I raised last year, however, the 1992-93 audit

revealed some other instances of non-compliance with federal/provincial agreements. For example:

- Waterfowl damage claims

  The Corporation has programs under which farmers can insure against crop damage caused by waterfowl and other wildlife. The waterfowl program operates under a federal/provincial agreement, while the other wildlife program is an Alberta program. In practice, claims are often received for crop damage caused by a combination of waterfowl and other wildlife. The Corporation's practice has been to pay these combined claims under the waterfowl agreement, instead of allocating the "other wildlife" portion to the other program. This practice results in the federal government cost-sharing the full amount of combination claims, even though a strict interpretation of the waterfowl agreement suggests that it should only cost-share the waterfowl portion.

- Effective dates of legislation

  At the beginning of each crop year, the Corporation provides farmers with details of the price options and insurance coverage available for that year. These options and coverage are authorized by regulation and are reflected in the insurance contracts that are issued. Ideally, therefore, regulations should be filed before the crop year begins or, if they are filed later, should indicate the crop year to which they apply.

  The provincial Crop Insurance Amendment Regulation covering the 1992 crop year was not filed until March 1993. As the regulation does not indicate the date at which it came into effect, it comes into effect at the date of filing.

In a management letter to the President of the Corporation at the conclusion of the audit, it was recommended that the Corporation determine ways to ensure that its programs and practices comply with the terms and conditions of the regulations and federal/provincial agreements that govern them. Uncertainties as to whether or not practices comply should be resolved with the parties involved and the resolution formally documented.

I have been informed that Agriculture Canada has since agreed to allow combination claims under the waterfowl agreement for 1992, providing that corrective action is taken for 1993. In addition, the Corporation has stated that, in future, regulations will be filed prior to the crop year to which they apply.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1993:

Alberta Agricultural Research Institute
Alberta Dairy Control Board
Irrigation Land Manager, and

Northern Lite Canola Inc. (formally Alberta Terminals Canola Crushers Ltd.) for the year ended July 31, 1993

Department of Community Development
year ended March 31, 1993

None of the matters reported to management at the conclusion of the Department's annual financial audit were selected for inclusion in this report.

Glenbow-Alberta Institute
year ended March 31, 1993

In addition to the annual financial audit, separate audits were also completed of the financial statements of the Glenbow Foundation for the year ended February 28, 1993, and Luxton Museum Ltd. for the year ended December 31, 1992.

The Recreation, Parks and Wildlife Foundation
year ended March 31, 1993

Non-compliance with legislation

The Foundation continues to make payments to Board members which do not comply with the Recreation, Parks and Wildlife Act.

In my 1987-88 annual report (page 53), I first reported that payments for travelling expenses, subsistence and remuneration were made from the Foundation's funds to members of the Foundation's Board in contravention of its Act.

Since I first reported this matter, the total amount paid in contravention of the Act is about $325,000. I have been informed annually by the Chairman that the Minister has been notified of the problem and that the Foundation anticipates appropriate changes will be made to legislation.

The continual disregard by the Board of its legislation is a matter of serious concern. The Act specifically prohibits the payments that are being made.

In a management letter to the Foundation's Chairman at the conclusion of the audit, it was again recommended that the Recreation, Parks and Wildlife Foundation comply with the legislative requirements of the Recreation, Parks and Wildlife Act regarding payments to its members.

I have been advised that the Foundation and the Alberta Sport Council will merge effective April 1, 1994, and that appropriate legislative changes will be made to eliminate the problem.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1993:

Alberta Foundation for the Arts
The Alberta Historical Resources Foundation
Alberta Multiculturalism Fund
Alberta Sport Council
Culture and Multiculturalism Revolving Fund
The Government House Foundation
Historic Resources Fund, and

Alberta Family Life and Substance Abuse Foundation for the period to March 31, 1993

Department of Economic Development and Tourism
year ended March 31, 1993

None of the matters reported to management at the conclusion of the Department's annual financial audit were selected for inclusion in this report.

Chembiomed Ltd.
years ended March 31, 1992 and 1993

Strategic planning

A plan has not been formalized which defines the role of Chembiomed's management in the future development and commercialization of the Company's technology.

Chembiomed Ltd. is owned by the Province and The University of Alberta. In 1991, following a decision by the Province to stop funding the Company's operations, the Company ceased its research and marketing activities. Staff was released and the building was leased to a private sector corporation. In November 1991, Chembiomed's research programs and most of its research equipment were transferred to the Alberta Research Council under technology assignment agreements. Since then, the Company has continued to wind-down its financial affairs, and has sold more than $500,000 of residual inventories.

The technology assignment agreements allow the Research Council to use Chembiomed's patents and technologies, and establish terms under which they can be used directly in commercial production. The agreements also provide for the sharing of revenues between Chembiomed and the Research Council on the basis of their relative contributions to the underlying research. The Research Council has entered into a number of research agreements with other organizations and is continuing to develop some of the technology transferred from Chembiomed.

Chembiomed's management consists of senior managers in the Department of Economic Development and Tourism. The Company's financial records are maintained by the Department. It is unclear, however, what role, if any, the Company's management is expected to play in deciding or monitoring the future of Chembiomed's technology, or the manufacturing and commercialization of any products

One way of handling the situation would be to transfer Chembiomed's patents to the Alberta Research Council, sell the remaining assets, and liquidate the Company. However, if Chembiomed's management is to have any role in guiding or monitoring the Company's technology, that role should be defined in

a plan prepared in conjunction with the various stakeholders. In view of the current climate of cost restraint, the plan should set out the anticipated costs and returns associated with any intended research or manufacturing.

In a management letter to the Chairman of Chembiomed Ltd. at the conclusion of the audit, it was recommended that Chembiomed's management consider liquidating the Company, or developing a plan to define the role of management in the future development and commercialization of the technology developed by Chembiomed Ltd.

Tourism Education Fund
year ended March 31, 1993

In addition to the annual financial audit, my staff completed an examination of the accountability and internal control systems of the Tourism Education Council.

Accountability reporting

The Tourism Education Council does not disclose in its annual reports the full costs of its operations and, consequently, neither the Legislative Assembly nor the tourism industry are well informed about the Council's operating costs.

The Tourism Education Council coordinates the development of standards, certification and training programs for Alberta's tourism and hospitality industry and related occupations. Its operations are funded jointly by the Province and the tourism industry. Grants from the Province and contributions from industry are paid into the Tourism Education Fund, and some of the Council's operating and program expenditures are paid out of the Fund.

The financial statements of the Fund, included in the Council's Annual Reports, do not include all the costs of operating the Council. For example, they do not include certain executive salaries, wages, accommodation and other administrative costs, which amount to over $580,000. These costs are borne by the Province's General Revenue Fund. Although this accounting disclosure satisfies current legislative requirements, it does not provide the Legislative Assembly or the tourism industry with a full accounting for the Council's operations and programs.

In its 1991 Annual Report, the Council indicated a desire to move towards operating on a full cost-recovery basis, with industry assuming primary responsibility for financing the Council's operations. To achieve this, identification of all costs incurred by, and on behalf of, the Council will be required.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Tourism Education Council improve its accountability reporting by disclosing in its annual reports the full cost of the Council's operations and the services it provides.

I have since been informed that the Department's Finance Unit has begun to deal with these concerns.

Tourism, Parks and Recreation Revolving Fund
year ended March 31, 1993

In addition to the annual financial audit, my staff completed an examination of the administrative systems relating to the Department's operation of the Tourism, Parks and Recreation Revolving Fund.

Purpose of the Revolving Fund

The activities and costs of the Revolving Fund could probably be handled and accounted for in a more convenient and less costly manner.

The Tourism, Parks and Recreation Revolving Fund is administered jointly by the Departments of Economic Development and Tourism, Environmental Protection, and Community Development. It was formed in April 1992 to assume some of the activities of the former Tourism Revolving Fund and the Recreation and Parks Revolving Fund. The Revolving Fund's main capital asset is a printing press. Its revenues consist of printing, postage, telephone and photocopying charges, and sales of maps and publications.

Revolving funds are supposed to be administratively convenient and cost-effective vehicles for managing inventories and capital assets, and for providing important goods and services to departments, and sometimes to the public. It is doubtful, however, whether the Tourism, Parks and Recreation Revolving Fund satisfies these criteria. Its inventories at March 31, 1993, were only $187,000, and its revenues for the year then ended totalled only $797,000. Usually, volumes of this size and nature are handled directly through departmental appropriations. Using a revolving fund with a separate legislative framework and accounting systems may be unnecessary.

In a management letter at the conclusion of the audit to the Deputy Ministers of the three departments involved, it was recommended that consideration be given to alternative and more cost-effective ways of delivering, and accounting for the services provided by the Tourism, Parks and Recreation Revolving Fund.

I have since been informed that the future of the Revolving Fund will be considered as part of the regulatory review process.

Alberta Opportunity Company

year ended March 31, 1993

Public service pension plan returns

For the past three years, the Company has not complied with the Public Service Pension Plan Act and Regulations.

The Company is required to submit audited payroll and pension information concerning its employees to the Payroll and Pensions Division of the Treasury Department. The Department needs this information to check employee eligibility for the plan, and to ensure that employee pension contributions are correct.

For the last three years, my audit opinions on these pension reports have contained a reservation of opinion because not all employees, who were required by legislation to participate in the pension plan, were participating.

My report for the 1992 pension reporting year indicated that the problem applied to eleven employees. The Company has excluded these employees because they are employed under contract, and the Company feels that such employees need not participate. However, the Treasury Department has confirmed that these employees are required to participate.

In a letter to the President and Managing Director at the conclusion of the audit, it was recommended that the Company adhere to the participation requirements of the Public Service Pension Plan.

Computer loans

The Company contravened the Alberta Opportunity Fund Regulations by providing loans for employee purchases of personal computers.

Section 14(3) of the Alberta Opportunity Fund Regulations states that "the Company shall not make a loan ... to a director, officer, or employee of the Company, directly or indirectly ..." At March 31, 1993, the Company had $34,000 of interest free loans outstanding to employees to enable them to purchase personal computers.

In a letter to the President and Managing Director at the conclusion of the audit, it was recommended that the Company stop providing loans to employees for the purpose of purchasing computers.

I have since been informed that the company has stopped providing computer loans to its employees.

Investments with underlying environmental risks

The Company could be liable for environmental damage caused by businesses who received venture or seed capital funding.

A major activity of the Company is making loans to businesses. The Company took possession of a property which had been pledged as collateral on a non-performing loan. It was later discovered, however, that this property contained contaminated soil. To dispose of the property, the Company will have to remedy the environmental damage.

Subsequently, the Company identified that it has made loans to other businesses where the securities for the loans may be at risk due to environmental damage resulting from the nature of the businesses. Management has since improved its procedures to reduce the Company's exposure to such risks.

In addition to its normal lending activities, the Company provides venture and seed capital funding to businesses. The nature of this funding often results in the Company having an equity ownership in these businesses. As a shareholder, the Alberta Opportunity Company can be held liable for the actions of these businesses, and it would have to bear some, or all, of the costs to clean up any environmental damage caused by them. These costs can be significant. It is therefore important that the Company be satisfied that businesses in which it is a shareholder have adequate procedures in place to minimize the risks resulting from environmental damage.

In a management letter to the President and Managing Director at the conclusion of the audit, it was recommended that the Company implement procedures to reduce its exposure to loss from environmental contamination which could be caused by companies who received venture or seed capital funding.

I have since been informed that the Company is implementing procedures to deal with the risk of environmental concerns arising from its venture and seed capital funding.

Alberta Research Council
year ended March 31, 1993

Computer security

The Research Council does not have an overall security policy and related procedures to ensure the safety and confidentiality of its computer programs and data.

The Research Council stores much of its financial and operational information on numerous computing systems dispersed throughout the organization. Much of this information is of a highly sensitive nature, yet there is no overall approved security policy to help ensure its confidentiality.

In the absence of clear direction from senior management, computer security can be ineffective. Procedures should be in place to ensure that information generated in the various departments is protected from unauthorized access or changes. Similarly, control procedures should ensure that sensitive operational information stored on computers is secure. At present, staff can ignore or bypass many of the security procedures that are in place. Furthermore, the master computer software access program that can identify staff who access computer information, is not being used.

Computer access and security risks can be contained or eliminated by a well-designed and formally approved computer security policy. Responsibility for monitoring compliance with the policy should rest with a senior officer who should ensure, for example, that reports generated by the master computer software access program are reviewed regularly and acted upon.

In a management letter to the President of the Research Council at the conclusion of the audit, it was recommended that the Alberta Research Council develop a formal policy concerning computer security, and assign to a senior officer the responsibility for monitoring all matters related to computer security.

Environmental issues

The Research Council does not have a system to monitor and assess the impact of advances in environmental legislation.

The scope of federal and provincial legislation assigning responsibility for environmental damage is continually increasing. Being unaware of such legislative requirements, or not complying with them, can result in costly litigation and future clean-up costs. The Research Council provides advice and information on environmental issues to Alberta businesses. In addition, the Research Council's operations, and the operations of some of the organizations it does research for, often involve the use of environmentally unfriendly substances and processes.

To enable the Research Council to provide comprehensive advice on environmental concerns, and to ensure that its own operations satisfy the requirements of current environmental legislation, procedures should be in place to alert management to the impact of changes or other advances in environmental legislation.

In a management letter to the President at the conclusion of the audit, it was recommended that consideration be given to having a member of management be responsible for reviewing current developments in environmental legislation, and for assessing their impact on policy, including identifying liabilities that should be disclosed in financial statements.

The Research Council has since proposed that the audit committee, once formed, will regularly review corporate processes and performance with respect to potential environmental liabilities.

Other entities

Financial audits of the following were also completed:

Alberta Heritage Foundation for Medical Research
- year ended March 31, 1993

Alberta Intermodal Services Ltd. - year ended December 31, 1992
Alberta Motion Picture Development Corporation
- year ended March 31, 1993

Department of Education
year ended March 31, 1993

In addition to the annual financial audit, my staff examined the Department's methods for monitoring operating expenditures of school boards.

School boards receive Provincial and local funding to operate local schools. In 1992-93, the Department of Education provided approximately $1.5 billion in general and specific grants to school boards. This amount represents approximately 55% of the school boards' total operating and capital expenditures.

Analysis of information

The Department does not make full use of the information contained in school board financial statements.

The Department currently limits the analysis of school board financial statements to examining the net results of operations and the cost of servicing debt. The Department does not consider levels and sources of revenue, cost of instruction, administration and facilities, cash requirements and other factors which indicate the financial strength and performance of the school boards. Analyzing such factors would give the Department a greater understanding of the operations of individual boards.

For example, from 1988 to 1990, administration costs for school boards increased by 13%, although total costs increased by only 11%. Several boards reported administration costs almost 25% lower than the provincial average, and a major board decreased administration costs by 16%.

Analysis of available information would be a first step in determining the educational outputs that need to be costed in order to understand the relative performance and funding requirements of school boards.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Education - Analysis of information
>
> **Recommendation No. 21**
>
> It is recommended that the Department of Education analyze the financial statements of school boards to improve its understanding of the differences in school board operations.

Adequacy of information received from school boards

The Department does not have information to determine that specific grant funds were spent for the designated purposes.

School boards provide audited financial statements to the Department. However, the information in the financial statements is not presented in a way that allows the Department to establish whether grant funds were spent as intended.

At the time of my examination, the latest available summary of school board financial statements indicated Early Childhood Services program costs of $55 million for 1990-91. The Department had provided $76 million to school boards as its share of the cost of providing early childhood services. It is not clear from the financial statements how the difference of $21 million was spent.

In addition, the Department provided approximately $36 million for student program grants, and $18 million for general education grants. School board financial statements do not identify the actual expenditures on these programs.

Better financial reporting by the school boards would enable the Department to improve its monitoring of school board expenditures to ensure that its grants are spent as intended.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Education - Adequacy of information received from school boards
>
> **Recommendation No. 22**
>
> It is recommended that the Department of Education obtain the necessary information to determine that specific grants to school boards are spent on the designated programs.

Education Revolving Fund
year ended March 31, 1993

In addition to the annual financial audit, my staff examined the methods used by the Fund to determine the price for distance learning materials.

The Fund, which operates as the Learning Resources Distributing Centre, purchases and sells learning resources to school boards and the public. The Fund also produces and distributes distance education materials, and teacher support resources developed by the Department of Education.

Distance learning programs serve about 26,000 students. Annual revenues from the sale of distance learning resources are about $4 million.

Pricing of distance learning materials

The Fund's distance learning materials pricing formula does not recover all production costs.

The Fund sells materials for all distance learning courses at a uniform price. However, production costs for different courses can vary, based on different material content and design, and unit costs can vary depending on production volumes.

The Fund has been unable to fully recover the cost of producing distance learning materials. At March 31, 1993, it reduced the carrying value of the distance learning resources inventory by $453,430 (17% of the value of this inventory) to a value equivalent to market value.

A pricing formula more sensitive to the cost of production would help the Fund to achieve its break-even objective.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department and the Fund improve the method of pricing distance learning resources.

Other entities

Financial audits of the following were also completed:

Northland School Division No. 61 - year ended August 31, 1992
School Foundation Program Fund - year ended March 31, 1993
Teachers' Retirement Fund - year ended August 31, 1992

Department of Energy
year ended March 31, 1993

In addition to the annual financial audit, my staff examined the systems used by the Department to calculate crude oil royalties, freehold mineral rights tax and related incentives.

Enhanced Oil Recovery, method of determining relief

In my 1990-91 annual report (page 52), I commented that the method used by the Department prior to June 1990 for determining the amount of Enhanced Oil Recovery relief available to a royalty payer was not consistent with the enabling legislation. I therefore recommended that the Department of Energy seek amendments to section 11 of the Petroleum Royalty Regulation under the Mines and Minerals Act in order to clarify how the program should be administered.

The Department is developing amendments to the legislation to resolve the matter. I will review progress in future audits.

Enhanced Oil Recovery, accountability

In my 1990-91 annual report (page 53), I commented that the Department did not include in its Annual Report appropriate information to enable assessment of the success of the Enhanced Oil Recovery program. I therefore recommended that the Department disclose in its Annual Report details of the Enhanced Oil Recovery program in order to inform the Legislature about the extent of royalty relief, and the benefits of such relief.

In its 1991-92 Annual Report, the Department disclosed the amount of incremental oil produced from Enhanced Oil Recovery projects, and the related royalty relief. These improved disclosures resolve my previous concern.

Alberta Oil Sands Technology and Research Authority
year ended March 31, 1993

In addition to the annual financial audit, the following work was completed:

- An examination of the quality of the Authority's Annual Report.
- An examination of the systems used to manage the Authority's Underground Test Facility project.

Objective assessment of progress in Annual Reports

The Authority's Annual Report does not provide sufficient information about the objectives and results of its research activities.

Alberta Oil Sands Technology and Research Authority was formed in 1974. Its mandate is to develop technology for the efficient and economic recovery and processing of bitumen, heavy oil and conventional crude oil. Since its formation, the Authority has spent about $600 million on various research projects.

The Authority's primary reporting document is its Annual Report. The Report contains detailed technical descriptions of research projects. However, the Report does not provide information about the Authority's mandate and mission, its long-range goals, and many of its program objectives. Without this information, a reader cannot relate the projects to the goals and objectives of the Authority. The Report also does not analyze the annual progress of individual research projects against established measurable criteria.

In a management letter to the Chairman and Chief Executive Officer of the Authority at the conclusion of the audit, I made the following recommendation:

> Alberta Oil Sands Technology and Research Authority - Objective assessment of progress in Annual Reports
>
> **Recommendation No. 23**
>
> It is recommended that the Alberta Oil Sands Technology and Research Authority improve its Annual Report by including objective assessments of its activities.

Ministerial responsibility for the Underground Test Facility

The Authority did not provided the Minister of Energy with important information about decisions and activities regarding the Underground Test Facility.

The objective of the Underground Test Facility is to demonstrate that oil sands reservoirs which lie too deep for production by current strip mining techniques can be commercially exploited using non-conventional techniques.

Commencing in 1982, design studies investigated the viability of combining mine access with horizontal drilling technology. The studies led to the construction, beginning in 1984, of the Underground Test Facility on Crown land near Fort McMurray. In 1987, the Authority began to form a consortium with oil industry participants to finance and develop the Facility. At the time of my examination, the consortium was comprised of the Authority and

nine participants from the oil industry. Each participant owns one of twelve participation units in the project; the Authority holds the remaining three. At the end of the 1992-93 fiscal year, the Authority had spent over $70 million on the Underground Test Facility.

The Oil Sands Technology and Research Authority Act specifies that the Minister of Energy is responsible for "the general supervision and direction" of the Authority. Therefore, the Minister needs to be kept fully apprised of the Authority's key strategic decisions and activities. I do not believe this happened consistently.

Risks associated with the consortium agreement were not clearly communicated to the Minister. For example, the Minister was not informed that industry participants' contributions to the project were fixed, and whether the project's costs and production revenues were meeting projections. I believe such information is significant, as any shortfall is borne by the Province.

The Authority did not inform the Minister that one of the participants intended to withdraw from the project on March 31, 1993. The withdrawing participant assigned its interest in the consortium to a new participant. Under the arrangement, the Authority, acting on behalf of the Province, forgave $770,000 owed by the original participant in order to attract the new participant.

The Authority hopes to commercialize the Underground Test Facility project. Current estimates call for an initial capital investment of $250 million, and a total capital investment of $450 million, over the 25 year life of the project. The Authority hopes that industry participants will finance and operate the entire project.

Given the magnitude of the planned project, the Authority's reporting structure should be strengthened. This can be done by the Authority clearly defining to the Minister the intended results of the project and the associated risks, the methods by which the progress will be monitored and communicated, and how the success of the venture will be assessed.

In a management letter to the Chairman and Chief Executive Officer of the Authority at the conclusion of the audit, I made the following recommendation:

> Alberta Oil Sands Technology and Research Authority - Ministerial responsibility for the Underground Test Facility
>
> **Recommendation No. 24**
>
> It is recommended that the Alberta Oil Sands Technology and Research Authority always provide the Minister of Energy with timely and appropriate information about its decisions and activities regarding the Underground Test Facility.

Involvement by industry participants

The Authority has not fully used the expertise of the industry participants in the Underground Test Facility project.

The responsibility for the overall direction of the Underground Test Facility lies with a Management Committee composed of one representative from each of the participants, and which is chaired by the Authority's representative. The project is operated by the Authority. The role of the Committee is to meet at least quarterly to monitor and direct the project.

In the two years preceding my review, the Committee met only three times. These meetings have generally been used as a forum at which the Authority has informed the Committee about decisions already implemented. It is important that the Authority utilize the knowledge and expertise of its industry partners in oil sands development. However, industry participants have had little influence on the project.

The Authority hopes to commercialize the technology used in the Facility and perhaps even the Facility itself. As the Authority does not have the mandate to undertake commercial projects itself, the success of its plans depends on the active participation of its industry partners.

In a management letter to the Chairman and Chief Executive Officer of the Authority at the conclusion of the audit, it was recommended that the Authority fully involve the industry representatives in strategic planning for the project.

Reporting of administration expenditures

The Authority's method of reporting its administration expenses is misleading

In 1992-93, the Authority was voted $3.8 million for its administration expenses. However, analysis of actual expenditures showed that approximately $2.4 million of funds voted to the Authority for research purposes, were, in fact, also spent on administration.

The Authority classifies some of its administration costs as research expenditure in its budgetary requests and financial statements. Items classified as research expenditure in the financial statements included $775,000 for maintenance of the Authority's library, $256,000 for maintenance contracts of its computer equipment, and other miscellaneous expenditures unrelated to research.

As a result of classifying administration costs as research expenditure, it is not possible to determine the reasonableness of the ratio of administration costs to research expenditure, or to provide the Minister and the Legislative Assembly with the real cost of administering the Authority.

In a management letter to the Vice-Chairman and Executive Director of the Authority at the conclusion of the audit, I made the following recommendation:

> Alberta Oil Sands Technology and Research Authority - Reporting of administrative expenditures
>
> **Recommendation No. 25**
>
> It is recommended that the Alberta Oil Sands Technology and Research Authority improve the way that it classifies, budgets and discloses its administration costs.

Control over revenue

The Authority does not exercise adequate control over revenue

Revenues may be generated through participation agreements, sales of technology and products, or royalty fees. However, the Authority has not identified all sources and amounts of potential revenues. Without such information, the Authority cannot be certain that it receives all revenues to which it is entitled.

Project managers are responsible for monitoring each of their assigned projects, and informing senior management when revenues become due. However, the project managers rely on their personal knowledge of the projects. In the absence of a structured corporate

method, senior management and the Authority members do not have complete information on the revenues due.

The draft financial statements for the year ended March 31, 1993 had not included revenues due, amounting to $630,582, from the use of patented technology. This revenue was identified as a result of audit procedures performed by my staff, and the financial statements were subsequently adjusted.

The Authority is entitled to proceeds from the sale of bitumen, currently estimated to be $6 million per annum, from the Underground Test Facility. In addition, the Authority is entitled to revenues from various projects where patented technology is used. To ensure that all revenues due to the Province are identified and followed up promptly, the Authority needs to develop a process which provides reliable information about revenues.

In a management letter to the Vice-Chairman and Executive Director of the Authority at the conclusion of the audit, I made the following recommendation:

Alberta Oil Sands Technology and Research Authority - Control over revenues

Recommendation No. 26

It is recommended that the Alberta Oil Sands Technology and Research Authority improve the system to identify and quantify its revenues.

Contract management

The Authority's management of contracts should be improved.

The following deficiencies were noted:

- A company was informed that, as the lowest bidder, it had been awarded a $368,000 contract. The company interpreted the receipt of a draft agreement from the Authority as confirmation that it had, in fact, been awarded the contract. However, as a result of subsequent revisions to the bid specification, another company was awarded the contract. The original contractor claimed compensation for lost time and specific expenditures incurred and was paid $41,674.

- A contract between the Authority and a construction company for $482,000 had a number of change orders resulting in the contract price escalating to $683,000. The changes were made

prior to November 1992, but did not receive senior management approval until February 1993.

There was a contract overrun of $649,000 on two contracts originally agreed to at $1.6 million. These expenditures had been incurred by March 31, 1993, but were not approved until June, 1993.

In a management letter to the Vice-Chairman and Executive Director of the Authority at the conclusion of the audit, it was recommended that the Authority improve the management of its contracts, and adhere to established contract awarding procedures.

Energy Resources Conservation Board
year ended March 31, 1993

Capital assets

In my 1991-92 annual report (page 94), I recommended that the Board improve control over its capital assets by verifying the existence and location of such assets, and accurately updating the asset register.

Management has conducted a review of the controls over capital assets, including verification of the existence and location of all assets, except for those at the Petroleum Industry Training Centre. Management is currently considering the results of the review. I will examine the Board's progress during future audits.

Other entities

Financial audits of the following were also completed:

540540 Alberta Ltd. - period ended March 31, 1993
Alberta Electric Energy Marketing Agency
- year ended March 31, 1993
Alberta Petroleum Marketing Commission
- year ended December 31, 1992
Province of Alberta Investment in Syncrude Project
- year ended March 31, 1993
Public Utilities Board - year ended March 31, 1993
Take-Or-Pay Costs Sharing Fund - year ended December 31, 1992

Department of Environmental Protection
year ended March 31, 1993

In addition to the annual financial audit, my staff examined the systems used by the Alberta Forest Service to manage the Province's timber harvesting.

Alberta Forest Service allocates timber harvesting rights to industry. In managing all harvest activity, the Service is guided by three principles. These relate to achieving a sustained yield designed to balance the volume of timber cut with the growth of new trees, integrating the needs of all users of the forests and avoiding harm to the environment.

Integrated management system

Alberta Forest Service does not have an integrated management information system to help manage and control timber harvesting.

Alberta Forest Service has 17 separate computer systems. Most of these systems are located at Head Office. In addition, forest district offices use manual systems to record their observations of detailed harvest activity. The Service employs approximately 140 staff in ranger districts and Head Office to manage the timber harvest. The annual cost of this activity is about $8 million.

An integrated system could replace some of the present systems and reduce costs. It would also support improved planning and management of harvesting activities by providing consistent information. For example, an integrated system could provide information on the types and frequency of agreement violations, inappropriate harvesting practices and penalties levied. Management would then be able to identify and assess risks, and optimize the benefits of field inspection activities.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Alberta Forest Service develop an integrated management information system to help manage and control the timber harvest.

The Deputy Minister responded that the Department was developing a proposal to evaluate and redesign processes for the management of information.

Forestry, Lands and Wildlife Revolving Fund
year ended March 31, 1993

In addition to the annual financial audit, my staff examined the methods used by the Fund to determine selling prices so as to achieve a break-even operating result.

The activities of the Fund include the sale of maps, airphotos and digital mapping data to government and private sector customers.

Pricing formula

The method of establishing the selling prices of map and airphoto products does not accurately reflect the direct costs, or the overhead expenses incurred.

For the fiscal years 1991-92 and 1992-93, Maps Alberta, a component of the Fund which sells maps, airphotos and digital mapping data, reported losses of $297,348 and $114,000 respectively. This occurred because the method used to determine selling prices was incorrect.

Management should improve its method of establishing prices by incorporating a greater level of detail based on historical sales information, and through improved methods of forecasting sales volumes. Factors such as discounts to dealers, product mix, and the forecast volume of sales also influence the prices that can be charged.

In a management letter to the Deputy Minister of Environmental Protection at the conclusion of the audit, it was recommended that Maps Alberta improve the methods used to establish the selling price of products.

The Fund has initiated action to deal with this recommendation.

Accounting procedures

Some accounting information is not reliable.

The Fund previously used a simple computer system to record accounting transactions, which consisted of routine sales and purchases of mapping and airphoto products. To provide better management information, the Fund acquired a more powerful computer accounting system.

Staff did not have the technical expertise to appropriately use the new system. There were also omissions and inaccuracies in the recording of sales revenues and complex capital lease transactions. In other cases, entries lacked documentary support to prove their validity. On one occasion, the computer system failed, and detailed

accounting information was lost. Most of the information was subsequently recovered with the assistance of the supplier.

Staff needs guidance from Departmental financial staff to maintain accurate, fully supported accounting records. They should also seek assistance from the computer support staff of the Department, as necessary.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that Maps Alberta use the expertise of financial and computer support staff of the Department for guidance in producing accurate and reliable financial information.

The Department has initiated a complete review of the Fund's financial information systems to ensure that proper standards are met.

Tire Recycling Management Board
period ended March 31, 1993

Collection of tire surcharge revenue

The systems used to collect tire disposal surcharge revenues should be improved.

The Board was established by Regulation in July 1992. It is responsible for establishing and maintaining a scrap tire recycling program in Alberta, funded by a $4 surcharge on all new tires sold in the Province. The Board is also responsible for ensuring that all tire retailers in the Province collect the surcharge and remit it to the Board.

The first nine months of the Board's operations were spent trying to identify and register tire retailers. This was still ongoing when the audit began in March 1993. Little had been done to determine why some tire retailers had never remitted any surcharges, or had remitted only sporadically.

Despite increased efforts, by the end of the audit the Board could still not determine the amounts, if any, owed by approximately 640 retailers who had never remitted, or who had remitted only sporadically. Even for retailers who were remitting, nothing had been done to determine whether they were collecting the surcharge on all new tires sold, or that they were remitting all amounts collected. The Board later approved a program of compliance reviews of retailers' records.

The difficulties described above created a problem when the financial statements of the Board were prepared for the nine months

ended March 1993. It was impossible to determine, with a reasonable degree of accuracy, the amount of surcharges that retailers owed to the Board at that date. Management estimated this amount to be approximately $400,000, in addition to amounts actually received during the first month and a half of 1993-94. The $400,000, however, was not supported by adequate auditable evidence. For this reason, and because of the material nature of the amount involved, I reserved my opinion on the financial statements.

In a management letter to the Executive Director at the conclusion of the audit, I made the following recommendation:

> Tire Recycling Management Board - Collection of tire surcharge revenue
>
> **Recommendation No. 27**
>
> It is recommended that the Tire Recycling Management Board maintain procedures that are capable of ensuring that surcharges due to the Board are collected.

I have since been informed that the number of retailers who have not remitted has been reduced significantly, and that compliance reviews of retailers' records have begun.

Method of assessing tire surcharge revenue

Existing legislation does not permit the assessment and collection of tire disposal surcharges in the most efficient and economical way.

Current legislation requires the surcharge to be levied at the retail level. This means that it is collected by approximately 1,700 retailers across the Province. The Board must cope with the difficulties of ensuring that every shop and service station that sells new tires registers with the Board, and that new retailers are identified. By means of on-site reviews and other procedures, the Board must also check that retailers collect and remit to the Board the correct amount of surcharge each month. Because of the number of retailers involved, this will be a time-consuming and expensive way of collecting the surcharge. There is also an administrative cost to the retailers.

The difficulties and costs of collecting the surcharge could be reduced if it was collected in a manner similar to Provincial consumption levies. Alternatively, it could be added to a fee that is already collected, such as the motor vehicle licensing fee. It is acknowledged that to collect the surcharge in these ways would require legislative changes.

In a management letter to the Executive Director at the conclusion of the audit, I made the following recommendation:

> Tire Recycling Management Board - Method of assessing tire surcharge revenue
>
> **Recommendation No. 28**
>
> It is recommended that the Tire Recycling Management Board consider alternative ways of collecting the surcharge that are less costly and administratively less time-consuming.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1993:

Alberta Environmental Research Trust
Alberta Special Waste Management Corporation
Environment Council of Alberta
Water Resources Revolving Fund, and

Natural Resources Conservation Board for the period ended March 31, 1993

Department of Family and Social Services
year ended March 31, 1993

Guidance to reader

The audit observations and recommendations that follow fall into three general groups. The first group focuses on improving the financial and other information used to manage expenditures under the Department's two main adult assistance programs, Supports for Independence and Assured Income for the Severely Handicapped. Some of these recommendations are founded in the belief that identifying and costing the services that Departments provide is key to effective financial decision-making.

The second group of recommendations deals with improvements in the systems used to administer the Department's adoptions service. This audit work builds on the 1991-92 audit of the systems used to administer services to children under permanent guardianship orders

The third group of recommendations relates to the systems that generate information used to claim cost-sharing with the Government of Canada. A few years ago, Canada announced that annual increases in Alberta's cost-sharing claims under the Canada Assistance Plan Agreement would be limited to the amount claimed in 1989-90, plus 5% each ensuing year. For a while, this meant that Alberta could not claim all the expenditures that would otherwise have been eligible for cost-sharing. Recent decreases in the number of Albertans claiming assistance have resulted in annual claims falling below the above-mentioned limit, and audits have again focused on opportunities for additional cost-sharing.

Scope of audit work

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used to control and process benefit payments, including applicable discretionary benefit payments, under the Supports for Independence and Assured Income for the Severely Handicapped Programs.

- An examination of the appeals process within the Supports for Independence and Assured Income for the Severely Handicapped Programs.

- An examination of the way that costs and resources are allocated and controlled within the Department's Child Welfare division and, in particular, the systems used to manage Adoptions Services.

- An examination of the systems used to generate information used to support the Province's annual claims under the Canada

Assistance Plan Agreement with the Government of Canada, and an audit of the 1991-92 cost-sharing claims under that Agreement.

- An audit of the 1991-92 cost-sharing claim under the Vocational Rehabilitation of Disabled Persons Agreement

Costs of benefits to clients with disabilities

The Department does not report the full cost of helping the disabled and it does not know how much each disabled person has received in total from various sources.

Disabled clients who live in the community can claim assistance to cover basic living costs in the same way as non-disabled clients. They can also claim additional assistance for personal support services such as for homemaker and attendant fees. The costs of providing this assistance, together with the costs of assistance to non-disabled clients, are included in the expenditures of the Supports for Independence Program.

The costs of most of the programs for the disabled can be identified in the Public Accounts. Assured Income for the Severely Handicapped, and Handicapped Children's Services, amounted to \$152 and \$18 million respectively. However, neither the Estimates of Expenditure nor the Public Accounts show that a significant portion of Supports for Independence benefits are for the disabled. There are probably 1,000 to 1,600 clients with disabilities receiving personal support services at a cost of \$30 to \$50 million annually, plus a further \$70 to \$90 million for basic living costs. To put these costs in perspective, almost 10% of Supports for Independence expenditures are for the disabled, and are not identified as such.

Disabled clients who receive assistance under the Department's direct assistance programs can also access services for the disabled delivered by agencies that are funded by the Department. An amount of \$72 million went to fund agencies that provide services to the disabled. The Department has no information on which of its disabled clients accessed these services or to what extent.

To manage its programs, the Department needs to know the extent to which the services it funds are meeting the needs of the various client groups and individual clients, and the costs involved. As illustrated above, information on the costs of services provided to disabled clients, both individually and collectively, needs to be improved. A system that could accumulate the costs incurred on individual clients from all programs would also be useful when assessing the reasonableness of those costs. Furthermore, associating all costs with the services provided would be a basis for assessing the value of the services and other benefits provided.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Department of Family and Social Services - Costs of benefits to clients with disabilities

Recommendation No. 29

It is recommended that the Department of Family and Social Services improve its reporting of Supports for Independence Program expenditures for disabled clients and, in addition, collect and analyze all costs by client rather than only by program.

The Department is making some progress towards identifying the costs of services to clients who receive funding under individual agreements.

Supports for Independence Program, employment assistance

The Department does not know why its clients stop applying for public assistance, or whether its efforts to help them find employment are succeeding.

When clients no longer qualify for assistance, they return their last cheque, stop sending in their monthly reporting card, or simply notify their local district office. Their file is then closed. The client's social worker is supposed to record the reason the file was closed, such as found employment, left the Province, and so forth. In practice, however, this is rarely done, mainly because of the work required to determine the reasons. As a result, the Department's information about why people leave the Program and the types of employment they find is incomplete.

The current Supports for Independence Program was initiated three years ago. It fosters independence in clients who are able to work by encouraging training, and helping them find employment. However, without reliable information about why clients leave the program, and the types of employment they find, the Department cannot evaluate the time and money allocated to training and employment initiatives. At present, the Department can only speculate on the reasons for the significant number of file closures during 1993.

Reliable information about the costs and effects of training and employment initiatives could also be a basis for future resource allocation and program design decisions. Information should also be obtained on how long ex-clients stayed employed and, if they return for assistance, the reasons why they return. Information of this

nature is basic to managing initiatives designed to help clients who are able to work to achieve independence, and to reduce the number of Albertans on assistance.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department compile information on the reasons why clients leave, and in some cases later return for assistance under, the Supports for Independence Program.

In late 1993, the Department began implementing a new Employment Programs System designed to track the progress of clients who are receiving employment support services, together with the effects of those services. It appears that this system may help in implementing the above recommendation.

I am pleased to report that this system will also address the recommendation that I made in my 1991-92 report (page 106), that the Department develop a system to provide comprehensive information on the history, training and work experience of employable clients that social workers can use to help clients find employment.

Supports for Independence Program, additional shelter allowances

In my 1991-92 annual report (page 99), I commented on payments of additional shelter allowance that were not in accordance with the Social Allowance Regulation. I recommended that the Department investigate the full extent of these payments. I am pleased to report that the 1992-93 audit revealed that the Department is now complying with the Regulation.

Assured Income for the Severely Handicapped, cost-sharing shelter costs

Shelter costs for clients who receive benefits under the Assured Income for the Severely Handicapped Program are still not being accounted for in a manner that maximizes cost-sharing with the Government of Canada.

Clients who receive these benefits cannot be required to disclose their assets or living arrangements. If they do divulge them, however, the part of the benefit that relates to shelter costs can be cost-shared with the Government of Canada. In 1991-92, Health and Welfare Canada expressed concern that the shelter costs being claimed by the Department were excessive. To clarify the matter, my Office undertook a special audit which concluded that rather than overclaiming, the Department was underclaiming costs of $2.3 to $3.5 million per year.

In my 1991-92 annual report (page 100), I explained the above situation, and recommended that social workers be encouraged to

record and code program benefits properly to ensure that they are cost-shared wherever possible.

Currently, the Department is awaiting a decision by Health and Welfare Canada on whether past underclaims will be cost-shared. Further negotiations will probably be necessary before a settlement is reached. During 1992-93, however, errors in coding amounts otherwise eligible for cost-sharing were still occurring.

In a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

> Department of Family and Social Services - Assured Income for the Severely Handicapped, cost-sharing shelter costs
>
> **Recommendation No. 30**
>
> It is recommended that the Department of Family and Social Services encourage social workers to ensure that Assured Income for the Severely Handicapped clients' shelter costs and asset levels are recorded correctly for cost-sharing purposes.

Verifying the calculation of benefits paid under adult assistance programs

The Department cannot be sure that accurate information is used to calculate benefits paid under the Supports for Independence and Assured Income for the Severely Handicapped Programs.

Much of the information used to calculate benefits is provided by the clients themselves. Social workers are required, sometimes after the fact, to obtain documentary or other evidence to verify that the information is correct. For example, depending on the circumstances, the client's identity, dependents, living arrangements, medical condition, assets, income and employment potential need to be verified, and employment action plans, annual reviews and benefit calculations need to be prepared and checked.

In previous annual reports (1991-92 page 98), I stated that 33% of client files examined lacked important documentation, or other evidence, that information or calculations had been verified. During 1992-93, there was only a marginal improvement. These deficiencies do not necessarily mean that incorrect benefits were being paid, but they do raise concerns in this regard.

Over the years, attempts to resolve this problem have met with only limited success. A useful prerequisite to finding a solution may be to identify the reasons for the deficiencies, and the districts in which they occur most often. Heavy workloads of the social workers may be one such reason, though it appears that some deficiencies were

because social workers were unfamiliar with the documentation and procedural requirements contained in program manuals.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department find out why some social workers are still not verifying information used to calculate benefits under the Supports for Independence and Assured Income for the Severely Handicapped Programs.

Supports for Independence Program, under-declared assets and income

Some clients receive more benefits than they are entitled to by under-declaring their assets or incomes. Extending the use of computer data matching could help to detect some of these instances.

Clients are eligible for benefits under the Program only if their assets or incomes are below certain levels. Bank records and paystubs etc. can be used to corroborate assets and income, but only if clients provide them. It can be very difficult to identify clients who deliberately under-declare their assets or incomes.

One way of identifying some undeclared income is to computer-match the Department's records with the records of others who could be providing clients with assistance. For example, the Department matches data with the federal government to see whether its clients have received and not declared unemployment insurance benefits. It has similar arrangements with the Students' Finance Board and the Department of Justice. This procedure produces valuable results, but there could well be scope for more investigation.

The Department enquired into the feasibility of data matching with Revenue Canada, but decided not to pursue the matter, concluding that the time-frames of the available information would make matching too difficult; taxation information is accumulated annually after the end of the year, whereas public assistance information is recorded monthly.

I believe this decision should be reconsidered, particularly as there is evidence that some of the Department's clients have not been declaring all their assets and incomes. For example, 20% of a random sample of 1,677 clients who were selected for special investigation by the Department during early 1993 had their files closed when it was found they had under-reported their income, or had given other false information.

I acknowledge that many sources of clients' incomes cannot be detected by computer data matching. I also acknowledge the issues of privacy, confidentiality and jurisdiction that must be respected for

some forms of matching. Nevertheless, data matching presents an economical way to realize potentially large savings by detecting program abuse, and should be pursued wherever practicable. Furthermore, the knowledge that the Department is computer data matching with other organizations can be a deterrent to clients who might be inclined to under-declare their incomes.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Family and Social Services - Supports for Independence Program, under-declared assets and income
>
> **Recommendation No. 31**
>
> It is recommended that the Department of Family and Social Services pursue more computer data matching opportunities with other government entities and departments to detect instances of program abuse. In particular, data sharing with Revenue Canada should be reconsidered.

I understand that the Department has recently reached agreement with British Columbia, Saskatchewan and Manitoba to share data on common clients.

Medical services expenditures

The Department is not adequately monitoring the cost of medical services initiated and received by clients under the Supports for Independence and Assured Income for the Severely Handicapped Programs.

Under these Programs, clients and their dependants receive premium-free Alberta Health Care coverage. The Programs also cover a number of other medical services including prescription drugs and dental, optical, and ambulance services.

Clients access these services by means of medical services cards issued by the Department. These cards are like credit cards, and the service-providers bill the Department. In the case of prescription drugs, Alberta Blue Cross processes the claims. Medical benefits and services to clients cost the Department $118 million during 1992-93.

In any system of this nature, there is potential for clients to overuse or abuse the services available to them. Therefore, the Department should have procedures in place to discourage and detect overuse and abuse. These should include requiring social workers who are familiar with their client's health situation to review regularly the

charges that their clients have incurred. In addition, the computer system that records these costs should identify for detailed investigation situations where costs of a certain nature, or over a given period of time, appear excessive.

The Department has limited the services that some clients can obtain, and does not allow some clients to have medical services cards at all. Most clients, however, have unrestricted access to the services outlined above. Furthermore, the service-providers' bills are paid centrally by Departmental staff who are unfamiliar with the clients' situation, whereas the social workers who are familiar with the clients' situation do not usually review their clients' charges for reasonableness.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department improve the control it exercises over medical services card purchases with particular regard to the prevention and early detection of over-utilization.

I am informed that the Department is implementing procedures designed to detect and follow-up instances of over-utilization of drug benefits. In addition, the Supports for Independence policy manual has since been updated to include guidance for social workers when dealing with suspected abuse of ambulance services.

Supports for Independence and Assured Income for the Severely Handicapped Programs, appeals process

There are no processes in place to minimize the number and cost of appeals, or to ensure that appeal panel rulings are consistent.

Clients can request an appeal panel to review the Department's decisions to limit or withhold benefits. Appeal panels are independent bodies comprising people who are not Departmental employees. Appeal panels, however, can only make rulings that comply with legislation.

During 1992-93, 49 appeal panels heard approximately 10,000 appeals. In addition, there were a considerable number of "no shows." The Appeals and Advisory Secretariat has begun to deal with this problem, as well as the shortage of useable information on past appeals issues and rulings.

The Secretariat needs a plan setting out its mandate and objectives, and the processes to be used to achieve its objectives. Such a plan should also define the nature and timing of the services to be provided, and their anticipated costs. Complementing the plan should be guidelines defining situations that can and cannot be the bases for appeals, and the scope and limitations of the appeals process. Some of this information should then be communicated to

district offices. There should also be a process for reporting on the Secretariat's performance, achievements and costs to the Minister.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department's Appeals and Advisory Secretariat formulate a strategic plan specifying its objectives, operating procedures and reporting processes.

Child Welfare Services, quality improvement

In my 1991-92 annual report (page 104), I commented on the need for the Department to review and improve the operations of its child welfare services Quality Improvement Branch. The Branch was not fulfilling its mandate of promoting improvements in, or monitoring compliance with, child welfare practices and standards. I was particularly concerned because standards governing minimum numbers of face-to-face contacts between social workers and children, and case planning for the children's futures were not always complied with.

As part of a restructuring of the Department's internal auditing and quality control functions in 1992-93, the Quality Improvement Branch was merged into a new Quality Management Division. The Division is assessing the monitoring requirements throughout the child welfare program area. A revised monitoring system is planned for implementation in February 1994, however, the situation remains basically unchanged from 1991-92.

In a management letter to the Deputy Minister at the conclusion of the audit, it was again recommended that the Department continue with its efforts to improve the quality of child welfare procedures through the implementation of improved monitoring procedures.

Child Welfare Services, coordination of resources and activities

Welfare services provided to aboriginal children are not well coordinated.

About 50% of the approximately 8,000 children who receive child welfare services are aboriginal, that is, they are children of Status Indian, Non-status Indian and Metis descent. The Child Welfare Act requires placements of these children in homes to take into account their familial, cultural, social and religious heritage.

At present, several Departmental branches and staff have responsibility for handling these and related child welfare services to aboriginal children. These include the Program Policy Development Branch, the Aboriginal Relations Branch, the Aboriginal Child Welfare Branch and Aboriginal Liaison Coordinators. There is, however, a lack of communication and liaison between these functions. Each has its own objectives and appears to function in isolation, partly because of the reporting relationships that exist.

Having separate groups all working on interrelated duties inevitably results in duplicated costs and, in some cases, counterproductive efforts.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department review its activities to ensure that the delivery of care to aboriginal children is being handled efficiently.

The Department has indicated that a review of the activities and information needs in this area is being given priority.

Child Welfare Services, signing agreements and monitoring delegated services

Progress in negotiating agreements with aboriginal bands and the federal government for the delivery of child welfare services is unduly slow. As well, the delegated services being delivered under existing agreements are not being adequately monitored.

Almost half of Alberta's 44 aboriginal bands have entered into agreements with the federal and provincial governments. These agreements, among other things, delegate to the bands the delivery of child welfare services otherwise provided by the Department. Training and support are made available to the bands to assist them with the delivery of services in accordance with the Child Welfare Act. With agreements in place, delays in the consultation required by legislation, and in the ultimate process for placing children in homes, can be minimized. If a band delivers child welfare services to an aboriginal child the cost of such services is met by the federal government.

It has taken a number of years to negotiate the agreements currently in place. Some of the issues that were causing delays in the earlier agreements now appear to be resolved. In view of the potential for improving the delivery of child welfare services to aboriginal children, and the potential for increasing federal government support, greater efforts to negotiate agreements appear warranted.

Even with agreements in place, the Department is still responsible under the Child Welfare Act for the adequacy of the care provided. It therefore needs systems to monitor the standard of care provided, and to hold accountable those to whom child welfare services are delegated. Such systems should be capable of determining whether the services provided meet policy and legislation requirements, and capable of promoting service improvements. At present, little monitoring is being done.

It is acknowledged that expediting the negotiating of agreements and better monitoring might involve reallocating scarce resources. It

should, however, lead to improved services and longer-term cost savings.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department of Family and Social Services give priority to completing agreements with aboriginal bands and the federal government for the delivery of child welfare services. It was also recommended that a framework be established for monitoring the child welfare services provided under existing agreements by aboriginal bands.

Child Welfare Services, assessment of prospective adoptive parents

Approving prospective adoptive parents more promptly would result in cost-savings and other benefits.

Before parents are approved to adopt children, they must undergo an assessment to evaluate their suitability. At December 1992, there were approximately 2,000 children under permanent guardianship orders and therefore eligible for adoption. At the same date, there were more than 500 prospective adoptive parents who had been waiting for assessments for at least three months (as compared to 370 waiting at December 1991).

Until assessments are done, the Department cannot proceed with the matching of children and adoptive parents. Timely completion of adoption arrangements not only benefits the children, it can also result in savings. While the cost of completing assessments ranges from $300 to $1,200, the costs of keeping children in care pending adoption ranges from $16,000 to $82,000 per year. The Department should therefore consider allocating more of its own staff resources to clearing the backlog or, alternatively, using private licensed agencies for this purpose. The chances of successfully matching children and arranging adoptions are increased if there are more approved adoptive parents available.

The Department is responsible for the approval of international and private adoptions which also require assessments. These services consume the resources of the Department and could hinder the Department's efforts to have regular assessments done. To minimize this impact, the Department could consider charging for assessments of private or international adoptions. Alternatively, the Department could refer prospective adoptive parents directly to private licensed agencies for assessment.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Family and Social Services - Assessment of prospective adoptive parents
>
> **Recommendation No. 32**
>
> It is recommended that the Department of Family and Social Services take steps to ensure that assessments of prospective adoptive parents are done in good time, thereby reducing costs and increasing the potential for successfully matching children for adoption.

Child Welfare Services, management information

The Department is not using to good effect some of the performance measurement information it generates.

The Department has recently implemented a Child Welfare Workload Management System to monitor the workloads of more than 500 social workers who deliver child welfare services. The System also provides information to support hiring decisions.

The System assigns standard hours to the tasks carried out by social workers. These hours are accumulated and reported monthly for each worker. This information is used to monitor monthly workloads, and is rolled up by district offices and regions to provide comparisons with the total value of tasks that management projected would be completed during the month. Conceptually, it is a benchmarking system.

Early reports produced by the system have revealed significant variances between the value of tasks completed, and the value of tasks projected. These variances have yet to be explained. It is unclear whether they are a result of a major change in operations, allocation problems within the system, or inaccurate projections. Regardless, the Department needs to ascertain the cause of the variances to be sure that its resourcing decisions are based on reliable information. When the Department is confident the information reported by the system is reliable, it will then be able to gauge the relative efficiency of social workers, district offices and regions.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department improve the reliability of information produced by the Child Welfare Workload Management System in order that better resourcing decisions can be made.

Child Welfare Services, Budgetary information

The presentation and analysis of budget information can be improved.

The Department spends almost $160 million each year on child welfare services. With this money, it provides programs and services to families with children that need protection, and funding for residential treatment facilities, and it administers foster care and adoption programs.

The 1993-94 expenditure estimates summarize the Child Welfare Services sub-program budget information as follows:

Program delivery	$ 35.7	million
Intake and investigations	8.8	million
In-home family support	15.8	million
Adoptions	3.4	million
Foster care	35.6	million
Community-based family support services	7.7	million
Residential care	51.4	million

Actual expenditures are summarized in the Public Accounts using the same components. The components, however, can be confusing to anyone unfamiliar with what they represent and include. For example, some components such as Intake and Investigations are departmental functions while others such as Residential Care relate to funded agencies. Child welfare workers' salaries are included in some components, such as Adoptions, but not in others, such as Foster Care. The $35.7 million for Program Delivery represents salary costs, parts of which should logically be included in the Intake and Investigations, In-home Family Support and Foster Care components.

In addition, the components do not fit logically or comfortably with the way the Child Welfare Services sub-program operates. More logical components and a consistent basis for allocating costs could provide better management and public information about Child Welfare Services, and the costs of providing those services.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department provide better management and budgetary information about Child Welfare Services and costs, and thereby establish an improved framework for subsequent accountability.

Canada Assistance Plan - Shareable child welfare costs

There are undue delays in claiming cost-sharing of certain child welfare costs under the Canada Assistance Plan Agreement.

Under the Canada Assistance Plan, the Government of Canada cost-shares 50% of certain payments made by the Province to, and on behalf of, people in need. Therefore, the Department must identify those of its clients who are "in need" and, in the case of some child welfare clients, those whose parents are in need. To prepare cost-sharing claims, the Department must then identify the costs of the benefits and services provided to these clients. These claims are reviewed and, if approved, are paid by the federal government.

Some of the Department's Child Welfare clients receive services from agencies and institutions that receive funding from the Department. Determining what portion of this funding is spent on eligible services to clients in need can be difficult, depending on the records maintained by the agencies and institutions. As a practical solution in past years, the federal government has accepted claims for portions of this funding based on the per diem rates and historical experience of the various agencies and institutions. More recently, however, it has insisted that claims be supported by precise information of the clients and services provided.

The Department has been somewhat slow in obtaining the required information, although I acknowledge the difficulties involved in obtaining some of it. For example, some non-residential institutions do not keep consistent or easily accessible information about the parents' financial status. When the audit of the 1991-92 claim was completed in February 1993, costs totalling $1 million for 1989-90 and $1.36 million for 1990-91 for six of the larger institutions had still not been approved as eligible for cost-sharing. In addition, unclaimed costs of $7.4 million for in-home family support provided by agencies had still not been finalized.

The Department has indicated that a new child welfare information system, which is currently being developed, will address some of the concerns. However, this will not be available until late 1994-95.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Department of Family and Social Services - Shareable child welfare costs

Recommendation No. 33

It is recommended that the Department of Family and Social Services finalize more promptly outstanding claims for prior years' child welfare costs under the Canada Assistance Plan Agreement.

Funding arrangements for Treaty Indians

The Department cannot prepare satisfactory cost-sharing claims because its information on the residency status of Treaty Indian clients is incomplete.

In April 1991, the Province and Indian and Northern Affairs Canada concluded a new funding agreement setting out the responsibilities of both governments for services provided to Treaty Indians. Under the agreement, costs incurred by the Province for on-reserve clients can be claimed in full from Indian and Northern Affairs Canada. Costs incurred for off-reserve clients can be claimed 50% under the Canada Assistance Plan Agreement.

The Department's computer system is designed to record the residency status of its Treaty Indian clients. Often, however, the information is not obtained or is not recorded on the system. As a result, the Province's 1991-92 claim for $28 million from Indian and Northern Affairs Canada had to be based on an estimate of the number of eligible clients who are living on reserves.

The Department has indicated that the introduction of the new child welfare information and other systems will, in future, help ensure the accurate cost-sharing of services provided to Treaty Indians.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Family and Social Services - Funding arrangements for Treaty Indians
>
> **Recommendation No. 34**
>
> It is recommended that the Department of Family and Social Services keep complete information on the residency status of Treaty Indians to whom it provides services, to ensure that the costs of those services are shared properly with the federal government.

Handicapped Children's Services

There is potential for cost-sharing more of the expenditures of the Handicapped Children's Services program with the Government of Canada. As well, there are no regulations setting out the program's benefits and eligibility criteria that can be used to promote cost-control and consistency of benefits.

The Handicapped Children's Services program operates under section 72 of the Child Welfare Act. It helps families with the additional costs of bringing up a handicapped child, such as special transportation, respite for parents, and health costs not covered by other programs. In 1992-93, the Department spent $18.6 million providing assistance under the Handicapped Children's Services program.

Unlike other support programs for the handicapped, the Handicapped Children's Services program is not needs tested. In other words, the parents of the children can claim assistance without having to demonstrate that their assets or income are below certain levels. Under the Canada Assistance Plan Agreement, the Government of Canada shares 50% of assistance costs, but only if the Province can demonstrate that the recipients of the services are in need. About 10% to 15% of parents who benefit under the Handicapped Children's Services program would qualify as in need.

Another way that the Handicapped Children's Services program differs from other programs for the disabled administered by the Department is that there is no legislated maximum of assistance that can be provided. In fact, there are no regulations defining the nature of the services that can and cannot be funded. The lack of such regulations increases the risk of inconsistent funding and makes cost-containment difficult.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department seek ways of maximizing cost-sharing of Handicapped Children's Services program expenditures, and give consideration to regulating or otherwise defining the program's benefits and eligibility limitations.

Department of Federal and Intergovernmental Affairs
year ended March 31, 1993

There were no matters reported to management at the end of this year's annual financial audit.

Department of Health
year ended March 31, 1993

Guidance to reader

The Province makes payments to health agencies and health care service providers. The payments are made as grants to 261 acute care and long-term care facilities, and as fees for service to approximately 7,900 health practitioners, including 4,480 physicians. Payments are also made to many others, including suppliers of drugs and medical equipment, health clinics, and health units.

In 1992-93, health expenditure reported by the Province was the largest category of Provincial expenditures amounting to $4.3 billion or 25.5% of consolidated expenditures.

The thrust of the recommendations which follow is that health programs should be defined in a way that is useful to measuring performance. At the same time, the Department and hospitals should work to improve existing systems to capture the cost of health care inputs and outputs.

Specifically, my recommendations contain three messages.

First, more effort is needed to change existing reporting from focusing on resources used to focusing on performance in terms of outputs and their outcomes. The appropriate autonomy of service providers and agencies to make service delivery decisions does not reduce—rather it increases—their responsibility to be accountable for the efficient use of public funds.

Second, the Department of Health needs to determine if the funds it provides have been used wisely. The Department needs to identify ineffective, duplicated and inefficient programs, and assess whether a reallocation of funds could produce more effective results.

Third, the Department of Health must concentrate on collecting and reporting the information that is needed now to permit evaluation of costs and achievements. The Department's initiatives to improve accountability are often protracted. The results are not always those expected, and new initiatives are introduced while older initiatives are not finalized.

Scope of audit work

In addition to the annual financial audit, the following work was completed:

- An examination of the system used by the Department to report costs of health care programs and services

- An examination of the system used to report each hospital's program costs.

- An examination of systems used by hospitals to manage non-grant revenues.

Reporting costs of health care programs and services

The costs of health care programs and services provided by the Province are reported in a fragmented manner and some costs are not identified as being related to health care. Consequently, it is not easy to determine the total cost of health care services.

Health care cost information reported in the Public Accounts has the following limitations:

- Health care costs paid by the Department of Family and Social Services and research grants provided by the Alberta Heritage Foundation for Medical Research Endowment Fund are not included in health expenditure in the Province's consolidated financial statements.

- The Department of Health's 1992-93 expenditure as reported in section 2 of Volume 2 of Public Accounts is $820 million less than health expenditure in the consolidated financial statements. The reason for the difference is because health care costs are also incurred by others such as the Departments of Public Works, Supply and Services, and Executive Council, the Capital Fund, the Alberta Heritage Savings Trust Fund, and the Lottery Fund.

- The Department of Health's 1992-93 expenditure as reported in section 2 of Volume 2 of Public Accounts includes net rather than gross expenditures. For example, the Health Care Insurance Fund's expenditure for 1992-93 is reported in the Department of Health's expenditure net of premium fees and Government of Canada grants. As a result of netting revenues, Departmental expenditure changes whenever revenue increases or decreases.

- Costs of services are not identified and reported as either mandatory under the Canada Health Act or as additional health programs provided by the Province.

- Administration costs associated with health programs are not adequately reported. The funding of health programs by numerous departments and agencies makes these costs difficult to estimate and increases the potential for duplication of systems needed to coordinate health service programs. Administration costs should be allocated to programs.

I acknowledge that fund accounting practices are required under existing legislation. However, these requirements should not take precedence over the need for proper information on the full costs incurred, reported on a consolidated basis. Full cost information would promote a better understanding of the cost of services required under the Canada Health Act and additional health programs provided by the Province.

Incomplete and fragmented information increases the risk that policy makers will not understand the level of health services provided, and the composition of program costs. The risk of funding health services without considering overall health care needs is also increased.

I believe that a comprehensive review of program reporting together with the reporting of required information will help identify costs of duplicated systems, and overlapping administration and coordination activities.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Health - Reporting costs of health care programs and services
>
> **Recommendation No. 35**
>
> It is recommended that the Department of Health improve the reporting of the full costs of health care programs and services in order to facilitate decision making.

I acknowledge that the Department needs to work in cooperation with other departments in order to implement this recommendation.

Funding of hospital programs

Background

The Department provides approximately $2 billion of financial assistance to 124 acute care hospitals. Traditionally, this funding has been based on each hospital's expenditure for the previous year adjusted for inflation. Several years ago, the Department decided to fund hospitals based on the level and amount of services each hospital provided. To implement this decision, information on each hospital's health care programs and each program's cost-performance is required. A hospital program comprises a grouping of hospital services designed to achieve given health outputs and outcomes.

In order to obtain information on hospital programs offered at hospitals, the Department undertook the following initiatives:

- In 1988, the Department initiated the Acute Care Funding Project. The purpose of this Project was to develop a methodology to determine each hospital's patient funding requirements and to match resources with the level of health care service provided. The Department obtains hospital performance information such as patient volumes, the severity of illnesses treated, and the cost of resources used in order to calculate a performance index for each hospital. Hospital funding is based on each hospital's performance index.

  The Department decided that funding using the performance index should be implemented in phases. Funding based on the performance index for the 70 largest hospitals began in April 1990 for inpatient care services only. This phase of implementation is not yet complete. Implementation of Project recommendations for outpatient care, specialized hospitals and rural hospitals has not yet started.

- The Acute Care Funding model needs cost benchmarks for hospital services in order to determine the Hospital Performance Index. These benchmarks are based on U.S. costs because information to produce Alberta benchmarks is not available. Comparable information on Alberta costs is expected to be determined using a system known as the Canadian Hospitals Management Information System (MIS) Guidelines which has been introduced to Alberta hospitals. The purpose of this system is to provide hospitals with the information required to manage their resources and to help the Department plan for the health services needed and estimate the resources required. Implementation of the system for all hospitals began in 1989 with a target date for completion in 1991. The implementation

was not completed by the initial target date and is now expected to be fully completed in 1995-96.

In 1991, hospitals were requested to document the programs they offered in role statements. The purpose of these statements was to identify program duplications or inefficiencies that could be curtailed and programs that were not available at certain locations.

The observations that follow relate to the funding of hospital programs. The recommendations are designed to assist those involved in the management of health care and are described as follows:

- **Defining hospital programs**
- **Measuring hospital program costs**
- **Reliability of hospital performance information**
- **Capital asset cost as a component of program cost**
- **Underutilized and surplus capital assets at hospitals**
- **Grants for specific programs**

Defining hospital programs

Information on hospital services submitted by hospitals to the Department has not resulted in a useful definition of hospital programs and services. The Department continues to provide grants to hospitals without a full understanding of the nature of each hospital's programs.

Programs often consist of several processes or functions. However, in many instances processes and functions such as anaesthesia and intensive care are defined as programs in the role statements. Whereas these are necessary processes in the delivery of a program, they cannot be considered to be the object of health care or a health program output. Also, in many instances hospitals did not report their services in a manner consistent with the programs defined in their role statements.

The Department decided that health programs as defined in the hospital role statements could not be used to evaluate health programs across hospitals. It now uses diagnostic codes and service area codes in patient records in place of the programs as defined in the role statements. However, it should be noted that diagnostic codes and service area codes are not being reported by hospitals in a consistent manner and, therefore, cannot be used to identify unnecessary program duplication or evaluate the cost-performance of programs. If this new basis of determining hospital programs is to be used, then this definition of programs should be communicated to and agreed with hospitals.

Proper hospital program definitions are urgently required as a basis for measuring hospital costs and for determining program duplications or inefficiencies.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Health - Defining hospital programs
>
> **Recommendation No. 36**
>
> It is recommended that the Department of Health establish useful definitions of hospital programs and use this information to determine programs that are to be offered by each facility.

It is acknowledged that the Department needs to work in cooperation with hospitals to establish useful program definitions.

Measuring hospital program costs

The Department is now receiving financial and statistical information from hospitals using the Canadian Hospitals Management Information System (MIS) Guidelines. However, this information is not as accurate, relevant and timely as it should be. Due to the poor quality of data being received, there is a risk that the Department's planned use of the MIS Guidelines information for the funding of hospitals in 1994-95 will not yield the expected benefits.

The Department needs to reassess how its needs for adequate information on hospital programs costs can be met. An analysis of the information provided under the MIS Guidelines indicated that:

- The bases for considering and grouping information are not consistent. The MIS Guidelines, as implemented, summarize information based on functional centres within hospitals. Some hospitals' data processing systems accumulate costs on a patient grouping basis. As a result, variations occur in the way costs are allocated.

- Some hospitals have not adopted the MIS Guidelines as a basis for producing their internal management information. Some hospitals generate information according to their own standards and have developed a "cross reference system" to produce data from their databases to meet what they perceive to be the Department's needs. This process affects data quality. The Department has modified its system to accommodate the data received from these hospitals, however, the result is that hospital data is not available in a way that allows comparisons across

hospitals. Examples of variations in cost reported by hospitals include average nursing costs per inpatient stay of $539 to $2,697 and average costs per meal day of $4.48 to $33.13. Some of these variations occur because of differences in the method of allocating costs.

MIS Guidelines information is not generated promptly. Hospitals are not meeting the Department's needs for monthly information. Delays in submitting information to the Department are significant.

The reason for implementing the MIS Guidelines was to get information from each hospital which would facilitate inter-hospital comparisons. The MIS Project reporting requirements need to be reassessed to determine ways to obtain more useful information on programs and output costs.

This information is required under the Acute Care Funding Project for funding purposes. The lack of such information increases the risk of not being able to identify program duplication within a region or not identifying programs which incur excessive costs.

I acknowledge that cost information for hospitals may also be required on a functional and a patient specific basis.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Department of Health - Measuring hospital program costs

Recommendation No. 37

It is recommended that the Department of Health take action to improve the quality of systems used to determine the cost of hospital programs so that the systems can be used to compare performance between hospitals and to support hospital funding decisions.

Reliability of hospital performance information

The Department needs to determine if the hospital performance information used for hospital funding is reliable.

I reported this matter in my 1991-92 annual report (page 118), noting that funding increases may not have been allocated as

intended under the Acute Care Funding Project funding model objectives. I had observed that:

- certain treatment costs reported in some hospitals' financial statements were not included in the hospitals' information returns used to determine inpatient care costs.

- medical information on patients obtained from the Health Medical Records Institute, based on information supplied by the hospitals, contained several anomalies which could have inappropriately influenced the Hospital Performance Index used for funding adjustments.

I recommended that Departmental staff determine whether inpatient cost and medical information used for funding decisions was accurate and consistent among hospitals.

The Department initiated a review of the medical information submitted. However, the review did not deal with my concern related to the omission of certain inpatient treatment costs, duplicate patient records, and significant variations in the length of patient stay for comparable illnesses.

My review of instances during 1992-93 where patients were readmitted indicated over 22,000 occurrences of patients being readmitted to the same hospital within 14 days of being discharged. A more detailed review of a sample of these occurrences indicates that 31% were for treatment of the same illness. These occurrences could significantly impact the funding received by hospitals. Each occurrence of the same illness which is treated as a separate visit results in an apparent overall improvement in a hospital's Performance Index and, therefore, greater funding. In my view, the Department should know the reason for the apparent high incidence of readmittance for the same illness.

As my concern about the quality of performance information has not been resolved, in a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

> Department of Health - Reliability of hospital performance information
>
> **Recommendation No. 38**
>
> It is recommended that the Department of Health determine whether the hospital performance information used to allocate funds to hospitals is reliable for that purpose.

I acknowledge that the Department is improving its systems to process hospital data, and that it is also considering an audit of the hospitals' clinical data.

Acute Care Funding Project, implementation

In my 1991-92 annual report (page 119), I recommended the full implementation of the Acute Care Funding Project funding method in all hospitals.

Approximately $29 million of funding for hospital inpatient costs in the years 1990-91, 1991-92, and 1992-93 has been reallocated among the 70 largest hospitals using the Project guidelines. Under the guidelines, a further reallocation of $36.5 million for inpatient costs is required for these hospitals. Reallocations for outpatient services and for specialized and rural hospitals have not yet been done.

The Department is planning for full adjustments under the inpatient funding model for the 70 largest hospitals in 1994-95. Furthermore, the Department's plans include funding adjustments for outpatient care, specialized acute care hospitals, and rural hospitals.

My staff will review the Department's progress in implementing the Project funding method in future audits.

Capital asset cost as a component of program cost

The Acute Care Funding Project does not consider the consumption of capital assets when determining hospital funding.

I reported this matter in my 1991-92 annual report (page 120).

The cost of equipment owned by acute care hospitals in Alberta is estimated at $800 million. Other capital assets include buildings, furnishings and improvement costs. A significant portion of these capital assets is required for patient care.

Reported patient operating costs are different for hospitals which purchase assets as compared to those which lease assets. Although resource consumption and actual costs may be similar, reported operating costs differ because lease costs are included but the amortization costs of purchased capital assets are excluded.

In my view, it is necessary to distinguish between capital funding decisions and decisions on operating performance. In determining operating performance, cost should include amortization even if amortization is excluded in the funding of operating budgets. It should be noted that some hospitals already amortize capital assets and others are expected to amortize capital assets for the 1993-94 year.

The Department has not yet dealt with my concern. The Acute Care Funding Project does not include the cost of capital asset consumption in determining program operating costs.

In a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

> Department of Health - Capital asset cost as a component of program cost
>
> **Recommendation No. 39**
>
> It is recommended that the Department of Health assess the impact of capital asset costs in determining hospital funding for patient care.

The adoption of this recommendation may also provide incentives to identify capital assets that are underutilized or surplus to a facility's needs.

Underutilized and surplus capital assets at hospitals

In my 1991-92 report (page 125), I reported that capital assets that are surplus to a hospital's needs are not being identified and disposed of in a manner that would yield the maximum value to the Province.

My concern has not yet been resolved.

There is no effective system in place to identify capital assets that are underutilized or are surplus to a hospital's needs. Such assets could be made available to other hospitals or sold. Under existing regulations, hospitals are required to remit to the Provincial Treasurer proceeds from disposal of capital assets acquired from Provincial grants. Thus there is no incentive for hospitals to identify equipment surplus to Provincial needs which could have disposal value.

As a result of funding reductions, the number of patient beds at some hospitals has been reduced so the risk of underutilized assets has increased. However, hospitals may be reluctant to declare capital equipment surplus in the belief that they will need this equipment in the future. Surplus equipment may be held even though there are hospitals which require such equipment and would use it if it were made available.

Unless hospitals are encouraged to expend effort to realize the residual market values of surplus equipment, it is unlikely that they will do so. Consequently, a source of funds is lost. In my view, an

investment in underutilized assets is not a good use of public resources.

As the resolution of my concern is even more important today, in a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

> Department of Health - Underutilized and surplus capital assets at hospitals
>
> **Recommendation No. 40**
>
> It is recommended that the Department of Health encourage hospitals to identify surplus and underutilized capital assets and to dispose of, or use, them in a manner beneficial to the Province.

Grants for specific programs

The Department lacks adequate information to determine whether funding for specific hospital programs has met its expectations.

The Department funds hospitals through global operating grants, capital grants and grants for specific programs. The main reasons for funding certain specific programs separately are to control the funding applied to high-cost procedures, to assess the value of new programs, and to determine appropriate expenditure levels for new programs to be incorporated in future global operating grants.

For the year ended March 31, 1993, there were more than 25 specific programs funded at a total cost of approximately $50 million. These programs included various drug treatments for cancer and AIDS and certain high-cost surgical procedures such as transplants.

The objectives for specific programs are not defined in measurable terms and key indicators for measuring and reporting on performance are not used. Without appropriate measurement of performance, programs cannot be evaluated and decisions to continue, discontinue, or modify programs cannot be made objectively.

Also, the Department has not established which specific program surpluses should be returned. For example, accumulated surpluses of $395,000 were not reported by a hospital because the hospital felt the Department would not require these funds to be repaid.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Department of Health - Grants for specific programs

Recommendation No. 41

It is recommended that the Department of Health determine how accountability for specific program grants to hospitals can be improved.

The Department has recruited the services of a consultant to advise it on how the administration of specific program grants can be improved.

Recommendation No. 41 above is the last in the series relating to the funding of hospital programs.

Hospitals' non-grant revenues

The accounting for non-grant hospital revenues is not as complete as it is for grant revenues.

Hospitals receive operating and capital grants from the Province. They generate non-grant revenues from patient accommodation charges, parking, gift stores, rentals, and interest on operating grants received from the Department, all of which, except for amounts required to be offset against operating grants, are defined as discretionary revenue. In general, these revenues may be used at the discretion of the hospital board. Donations with conditions restricting how they may be spent are not discretionary revenue.

At March 31, 1993, the amount of accumulated discretionary revenue surpluses at hospitals was estimated to be approximately $65 million. Annual discretionary revenues are estimated at approximately $100 million, of which $90 million is expended.

It appears that some hospital boards may believe that because discretionary revenues are not received from the Province, these revenues need not be subject to normal standards of public accountability. It was observed that not all discretionary revenues are being reported to the Department in hospital annual returns. In one case, a hospital failed to report accumulated amounts of approximately $12 million from commercial and parking operations, and approximately $4.6 million from interest income. It was also observed that the use of discretionary funds is not always planned and reflected in an annual approved budget.

Annual budget approvals and full accountability for the use of discretionary revenues should not be optional. My comments should not be interpreted as a suggestion to reduce hospital boards' autonomy but rather to improve the accountability for the use of public funds.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Department of Health - Hospitals' non-grant revenues

Recommendation No. 42

It is recommended that the Department of Health require hospitals to account for the use of non-grant revenues as a means of reporting how such funds are used to further health care

Prescription drug program

The Department provides a prescription drug program to residents who are unable to obtain similar benefits through an employer, and to qualified residents such as senior citizens, widows and widowers. Alberta Blue Cross administers the program under a contract with the Department and gives registrants a Blue Cross card to obtain services. The Department reimburses Blue Cross for prescription drug claims paid on behalf of approved registrants and pays Blue Cross administration fees. In 1992-93, the prescription drug program cost approximately $126 million net of $19 million of premiums received from registrants. In addition, $8.3 million was paid to Alberta Blue Cross for administration fees.

Dispensing fees payable under the prescription drug program

Dispensing fees paid to the pharmacists may not be reasonable based on comparison with such fees paid in other jurisdictions.

Dispensing fees claimed by pharmacies in 1992-93 were approximately $51 million.

A survey by the Department of dispensing fees paid by each of the provinces disclosed that the 1992-93 average dispensing fees paid for each prescription ranged from $6.10 to $9.91, with Alberta paying the highest amount. The average in Canada was $8.05.

A new dispensing fee agreement has been negotiated with the pharmacists that is expected to result in savings of approximately $2 million. These savings reduce Alberta's average dispensing fees to $9.41 per prescription. However, average dispensing fees are still expected to be higher than most of the other provinces. If average dispensing fees were equal to the average dispensing fees of all other provinces, further savings would be approximately $6 million. If the lowest average fee was paid, further cost savings to the Province would be approximately $14 million.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department review the reasonableness of dispensing fees paid to pharmacists.

Administration fees

In my 1991-92 annual report (page 115), I recommended that the Department of Health determine whether the fees paid to Alberta Blue Cross for the administration of the prescription drug program were reasonable.

The Department has now scheduled negotiations with Alberta Blue Cross to establish a new compensation agreement.

In a future audit, my staff will review the Department's process for determining that the administration fee is reasonable.

Prescription drug costs

In my 1991-92 annual report (page 116), I recommended that the Department of Health determine that benefits paid under its prescription drug program are provided in a cost-effective manner.

The Department introduced an Interchangeable Drug List on July 1, 1993. Effective October 1, 1993, a policy of paying the lowest drug cost on the list was implemented. This policy is likely to result in the reduction of drug costs.

The Department's action resolves my concern.

Approved drugs

In my 1991-92 annual report (page 117), I recommended that the Department of Health determine that only cost-effective drugs are approved for reimbursement.

The Department, in conjunction with other provinces, has asked the Canadian Co-ordinating Office for Health Technology Assessment to expand its mandate to include evaluation of the cost effectiveness of drugs.

During future audits, my staff will monitor the Department's success in working with others to promote cost/health-benefit analysis for approved drugs.

Recoverable hospitalization charges

Certain hospital costs which are recoverable from The Workers' Compensation Board are not identified and, therefore, not billed to the Board. As a consequence, costs that should be charged to employers through the Board are borne by the Province.

In my last four annual reports (1991-92, page 123), I recommended that the Department assist hospitals to recover all amounts that are the responsibility of The Workers' Compensation Board. Although the Department agrees with my recommendation, it has not yet taken any action to help hospitals to resolve the matter.

A comparison of hospital information submitted to the Department with records at The Workers' Compensation Board indicated that approximately $5 million annually could be recovered. If such an amount was recovered by the hospitals, the Department could reduce its grant payments to the hospitals by an equivalent amount.

The Department requires hospitals to identify and to recover costs for patients who are the responsibility of The Workers' Compensation Board. However, the hospitals are unlikely to be successful because:

- the hospitals do not have access to all the records that indicate potential recoveries. For example, the Department maintains certain claims information which hospitals could use to identify patients whose costs should be billed to the Board.

- the hospitals may have no real incentive to identify recoverable amounts. For each dollar recovered from The Workers' Compensation Board, hospitals could lose an equivalent dollar in grant support payments from the Department.

In my opinion, the Department should no longer delay resolving this long-standing concern.

In a management letter to the Deputy Minister at the conclusion of the audit, it was again recommended that the Department of Health assist hospitals in identifying costs that are the responsibility of employers through The Workers' Compensation Board.

Community Mental Health Services, program delivery

In my 1991-92 annual report (page 121), I recommended that the Department determine whether its community mental health services are managed in the most cost-effective manner.

The Department, through several initiatives, has progressed in dealing with my concern. The Department is developing a strategic plan for mental health service delivery. The proposed plan is expected to improve the coordination and integration of services. The Department also proposes to evaluate mental health programs and alternative service delivery strategies.

These initiatives will take some time to have an impact on community mental health service delivery. Therefore, I am not repeating my recommendation at this time. My staff will continue to review the Department's progress in measuring and reporting on the performance of its community mental health services.

Hospital rates used to bill non-eligible patients

In my 1991-92 annual report (page 122), I recommended that the Department review the rates charged by hospitals to non-eligible patients to ensure that the costs of medical services provided are recovered.

The Department is reviewing the rate-setting process.

In due course my staff will review the action taken by the Department.

Hospitals, verification of patient registration

In my 1991-92 annual report (page 124) I recommended that the Department establish a system that hospitals can use to verify whether patients are registered under the Alberta Health Care Insurance Plan.

I reported that approximately 10% of hospital records did not contain a valid registration number for those indicated as being Albertans. To the extent that services were provided to persons who were not registered, revenue may have been lost.

During the year, the Department determined that a large percentage of the invalid numbers relate to newborns. The Department intends to introduce a new method of assigning registration numbers designed to correct this problem. Also, hospitals have implemented check-digit calculations to identify and correct invalid numbers before submitting information to the Department. This action addresses my concern.

Health Care Insurance Fund
year ended March 31, 1993

Physician services agreement

An amount of $14.3 million recorded as a liability by the Department as at March 31, 1993, was contractually payable to physicians but was not supported by specific claims for medical services in 1992-93.

The Department entered into an agreement with the Alberta Medical Association to set the total amount that would be paid annually to physicians for their services in the period April 1, 1992 to March 31, 1999. The agreement has been described as putting a "cap" or "limit" on payments to physicians. The agreement limited the increase in payments to physicians during 1992-93 to $45 million, being a 5.5% increase over the prior year.

Under the 1992-93 capping agreement, the Department increased rates paid to physicians on services provided during 1992-93 by 2.8%. This increase was based on the expectation that the volume of services provided by physicians would increase by 2.7%. However, the actual volume increase was approximately 1.2%. Consequently, total claims on the actual service volume at the increased rates did not reach the total payments contemplated in the agreement. The shortfall of $14.3 million is payable and is recorded as a government expenditure and liability. The method of settling

the liability has not yet been established. It is possible that it will be paid as a rate increase.

Since the claims submitted in 1992-93 were not at a level anticipated under the capping agreement, in my opinion, the Department should re-examine with the Alberta Medical Association the reason for the liability. Moreover, the Department needs to review whether the growth in payments to physicians of $45 million during 1992-93 and an additional estimated amount of $27 million during 1993-94 meets its objectives of economic restraint.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Department of Health - Physician services agreement

Recommendation No. 43

It is recommended that in future physician service agreements the Department of Health include provisions to deal with payments to physicians when service volumes do not match forecasted volumes.

PROVINCIALLY-OWNED HOSPITALS AND THEIR FOUNDATIONS

The Provincially-owned hospitals and their related foundations operate under the authority of the Provincial General Hospitals, Cancer Programs, University of Alberta Hospitals and University Hospitals Foundation Acts. The financial statements of these Provincial corporations are not included in the Province's consolidated financial statements. The Minister of Health, who administers the above Acts, tables the audited financial statements of these hospitals each year in the Legislative Assembly.

The Auditor General is the auditor of all Provincially-owned hospitals. The majority of the hospitals in the Province are not Provincially-owned and, therefore, are not audited by the Auditor General.

Children's Health Foundation of Northern Alberta
year ended March 31, 1993

Monitoring use of grants provided

The Foundation does not determine whether grant recipients have used the funds provided for intended purposes or whether any unspent amounts should be returned to the Foundation.

In 1991-92 and 1992-93, the Foundation gave 25 grants mainly to doctors and hospitals, for paediatric research, paediatric education, and clinical and research equipment. Grants are issued with the requirement that at the end of the grant period recipients provide an accounting of the grant monies used, and return unspent amounts to the Foundation.

Out of 21 grant files examined, only two grant recipients had provided the reports necessary for the Foundation to determine whether they had used grant monies for intended purposes, or whether they had any unspent amounts which should be returned to the Foundation.

In a management letter to the Foundation's Chairman at the conclusion of the audit, it was recommended that the Foundation improve its procedures for making grant recipients accountable for the funds provided to them.

Internal controls

Internal controls in the purchasing and payment, and cash receipts systems are not operating effectively.

Significant findings during the audit were:

- Some purchase orders were dated after the invoice date or after the date that goods and services were received.

- Some purchase orders did not indicate prices.

- In two instances, Board authorization required for expenditures in excess of $10,000 was not obtained.

- The records of cash received were not reconciled to the bank deposits.

Similar concerns were reported to management during the previous audit.

In a management letter to the Foundation's Chairman at the conclusion of the audit, it was recommended that the Foundation improve the controls in its purchasing and payment systems and that it reconcile the records of cash received to the bank deposits.

Other entities

My reports on the financial statements of the following Foundations contained reservations of opinion because the Foundations receive donation revenue which is not susceptible of complete audit verification:

Year ended March 31, 1993

Alberta Cancer Foundation
Children's Health Foundation of Northern Alberta
University Hospitals Foundation

Nine months ended December 31, 1992

Charles Camsell Provincial General Hospital Foundation

Financial audits of the following were completed for the year ended March 31, 1993:

Alberta Cancer Board
Alberta Children's Provincial General Hospital
Alberta Hospital Edmonton
Alberta Hospital Edmonton Foundation
Alberta Hospital Ponoka
Children's Health Centre of Northern Alberta
Edmonton Region Health Facilities Planning Council
Foothills Provincial General Hospital
Glenrose Rehabilitation Hospital
University Hospitals Board, and

Charles Camsell Provincial General Hospital
- nine months ended December 31, 1992

Calgary Area Hospital Advisory Council Fund
- for the period ended July 20, 1992

Department of Justice
year ended March 31, 1993

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used to collect, record and distribute revenues assessed by provincial courts.

- An audit of the Province's 1991-92 claim for the Government of Canada's contribution to fund programs and services provided to victims of crime.

- An examination of the systems used to manage the computer resources of the Motor Vehicles Division. The Division was part of the Department of the Solicitor General which merged with the Department of the Attorney General to become the Department of Justice. At the time of the audit, plans were going ahead to transfer the Division's operations into a new corporation, Alberta Registries. These changes do not affect the applicability of the recommendations.

Assessment of costs and benefits of computer resources

The Department does not adequately monitor some of its computer resource costs and benefits.

The Department's ongoing investment in computer resources is unusually large. The Department spends approximately $10 million annually on computer services, operations and systems development. Approximately $3 million of this amount is for staff costs to operate, maintain and develop systems. For this reason, it is important that all computer operation and development costs be budgeted and tracked with care, and assessed in relation to alternatives and the value of benefits obtained. Monitoring and assessment could be improved in the following areas:

Improving the annual plan for computer resources

The purpose of the annual plan is to provide direction for the use of the substantial resources consumed. The plan, however, is not specific enough to achieve this.

For example, the plan identifies priority and other systems development projects for the year, but does not estimate the staff resources that will be needed to undertake these projects. Although it is known that the Department usually has insufficient staff resources to complete all the projects in the plan, the plan does not show which of the priority and other projects will be initiated, what

will be accomplished, and the staff resources that will be needed for each project.

A more useful plan would be one that outlines clearly the development projects that must be initiated and completed during the year. It should also indicate the time frames and resources to be allocated to the projects, together with the expected benefits. Identifying planned outputs and benefits and associated costs in this way can help ensure that available resources are being allocated in an effective manner. Such a plan can also be a basis for computer resource managers to report on their performance and achievements.

Monitoring computer staff costs and workloads

The Department employs a significant number of computer support staff whose responsibilities include providing services to the Department's various divisions and programs. There is no system in place, however, to determine the costs of the various services they provide, or to which divisions and programs they are provided. Such a system would enable the Department to assess the reasonableness of the costs incurred, and the workloads of the staff. It would also enable costs to be allocated to the various divisions and programs, thereby providing a more accurate assessment of their costs, and in due course, the costs of the services that the divisions provide.

Charging computer usage, maintenance and system enhancements costs

The Department has sole use of a large computer for which it is charged approximately $3.8 million annually by the Department of Public Works, Supply and Service. The Department allocates these costs to its divisions and programs, but does so on the basis of their usage in prior years. This means that allocations can be distorted in times of fluctuating usage.

As the needs of the Department's divisions and programs change, the computer system is frequently upgraded by enhancements. Many of the costs of enhancements are incurred by the Department's central group. These costs, however, are not allocated or charged to the divisions and programs, which means there is little incentive for divisions and programs to seek equally acceptable enhancements which would cost less.

Quantifying the anticipated benefits of systems changes

Requests for changes and enhancements to the Motor Vehicles Division main computer system are reviewed and prioritized by a

committee which authorizes commencement of its development work. The requests, however, do not quantify the benefits that the proposed changes are expected to provide, and rarely do they outline alternative solutions.

I acknowledge that many recent changes to the system have been necessitated by changes in legislation or the Department's mandate. While changes of this nature are not discretionary, evaluating the costs of alternative ways of making the changes, and assessing those costs in relation to the benefits to be derived, can often lead to better, and more cost-effective development projects.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Justice - Assessment of costs and benefits of computer resources
>
> **Recommendation No. 44**
>
> It is recommended that the Department of Justice improve the systems and procedures it uses to monitor and assess the costs of computer resources, and the resulting benefits.

Archiving information from computer files

The Motor Vehicles Division could improve the economy and efficiency of its data storage.

Large computer systems have large databases. Over time, data stored on a database can become sizeable, resulting in the system being unable to provide users with information as quickly as it should. A solution to this problem is to archive data that is old, or which is used less frequently. Archived data can still be accessed, but its storage costs are usually much less.

The Motor Vehicles Division continues to increase computer resources to store information. The database uses 75 billion characters of disk storage, which represents a 51% increase over the past three years. Much of the additional data is historical, covering operator and vehicle licenses and related information. As well, additional information on enforcement, fines and license information has been added to the database. Some of this information does not need to be stored on the on-line database.

The cost of acquiring and maintaining disk space for the on-line database is significant. If some of the historical information was archived, the savings could be substantial.

An effective archiving policy should take into account the users' information needs, the performance of the database, and information storage costs. As a rule, storage costs are minimized by storing on-line only that information that users need to access or update instantaneously. The Division needs to determine which information needs to be accessed instantaneously, which needs to be available reasonably quickly, and which can be provided on a delayed basis without unduly inconveniencing the users. Suitable archiving technologies can then be chosen to satisfy these needs and to minimize storage costs.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department's Motor Vehicles Division review its information requirements and develop archive policies and procedures based on those needs.

Charges for computer services

The Department is not obtaining all the information needed to assess the reasonableness of the cost estimates and monthly billings it receives for computer services.

The Department uses computer services provided by the government's central computing facility operated by the Department of Public Works, Supply and Services. Because the Department's computer needs are extensive and costly, and to enable the Department to control costs, the Department of Public Works, Supply and Services has assigned a mainframe computer to the Department's use.

Each year, the Department of Public Works, Supply and Services provides the Department with an estimate of the computer service costs for the coming year. These estimates are broken down into equipment amortization and maintenance costs, computing centre staff costs and network support costs. The 1992-93 estimate was $3.8 million.

If reviewed critically in conjunction with additional information, the Department of Public Works, Supply and Services' estimates can provide valuable budgeting and cost-control information. They can also be used to monitor the monthly billings received from the Department of Public Works, Supply and Services. Considering the significant costs involved, it does not appear that this information is being perused with appropriate rigour.

For example, there was little evidence that the Department had obtained information from the Department of Public Works, Supply and Services on the bases used to allocate and charge staff costs, either in the annual estimates, or in monthly billings. In addition, it was not clear why the annual cost estimates for these staff had

remained constant at around $780,000 per year, even though the central computing facility's manpower costs had decreased by approximately 13%.

The significance of computer service costs, and the variances between annual estimates and subsequent monthly billings, appear compelling reasons for the Department to investigate in more detail the bases used to arrive at estimates and billings, and significant variances between them.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department more critically assess the reasonableness of the estimates and bills received from the Department of Public Works, Supply and Services for charges related to computer resources.

Motor Vehicle Accident Claims Fund

Forecasting expenditures

Management is not monitoring claims pending against the Motor Vehicle Accident Claims Fund, or forecasting expenditures that are likely to result from such claims. Without such information, management's ability to budget and plan effectively is limited.

People who suffer injury or loss in accidents caused by uninsured or unknown drivers can claim compensation from the Province's Motor Vehicle Accident Claims Fund. Compensation can be up to $95,000 for reimbursable medical expenses, and $200,000 for personal injury and property damage. The Fund's annual expenditures are approximately $14 million per year, and are financed by a $6 levy on motor vehicle registrations.

In most cases, to receive compensation, claimants must obtain a Court judgment against the uninsured driver or the Fund's Administrator, which is the basis for the Province to pursue the uninsured driver.

To administer the Fund effectively, management needs to forecast the Fund's future net claims. This information is needed to ensure the availability of sufficient funds to meet claims as they become due and, if necessary, to adjust the levy.

The levy has traditionally been more than sufficient to meet the Fund's expenditures, and unneeded amounts ($20 million in 1992) have been transferred from the Fund to the Province's General Revenue Fund. In recent years, however, the Fund's expenditures have risen substantially. If this trend continues, at some future time the Fund may have insufficient resources to pay claims. This

prospect increases the need to forecast future claims and to budget revenue requirements. It would be unfortunate if the need for additional revenue was not identified until the Fund was in a deficit position.

At present, the systems used to manage the Fund are not capable of forecasting reliably the Fund's future annual expenditures. For example, the Fund's records showed that 2,770 potential judgements were awaiting Court hearings at March 1993. The records of the Department's Civil Law Branch, however, showed that there were only 1,840 judgements outstanding. Claims from potential judgements could total $200 million, but there are no projections of how much of this amount is likely to result in claims on the Fund, or when those claims are likely to be payable.

In a management letter to the Deputy Minister of Justice at the conclusion of the audit, I made the following recommendation:

Motor Vehicle Accident Claims Fund - Forecasting expenditures

Recommendation No. 45

It is recommended that the Department of Justice use the information available on potential judgements and claims against the Motor Vehicle Accident Claims Fund, to forecast future claims and to budget the Fund's future revenue requirements.

Department of Labour
year ended March 31, 1993

There were no matters reported to management at the end of this year's annual financial audit.

Other entity

A financial audit was also completed of the **Joint Standards Directorate** for the year ended March 31, 1993.

Department of Municipal Affairs
year ended March 31, 1993

None of the matters reported to management at the conclusion of the Department's annual financial audit were selected for inclusion in this report.

Alberta Mortgage and Housing Corporation
year ended March 31, 1993

In addition to the annual financial audit, my staff completed the following work:

- Audits of the 1992-93 cost-sharing claims under the National Housing Act (Canada) for the non-profit housing, rent supplement, and rural and native housing - home-ownership and rental programs.

- A financial audit of the subsidiary corporation, Mortgage Properties Inc., for the year ended March 31, 1993.

- A review of the transactions and corporate actions referred to by the former President of Mortgage Properties Inc. in his allegations of conflict of interest, patronage appointments and tendering irregularities.

Mortgage Properties Inc.

In my 1991-92 annual report (page [illegible]), I reported that allegations of "conflict of interest, patronage and tendering irregularities" were reported to me at the time that I was completing my report and that I was not able to complete my review of this matter before issuing my report.

My examination covered the matters contained in a memorandum from the former President of Mortgage Properties Inc., addressed to the Minister of Municipal Affairs. The memorandum contained allegations of conflict of interest, patronage and tendering irregularities at Mortgage Properties. I also reviewed the action taken by the management of Mortgage Properties and the parent company, Alberta Mortgage and Housing Corporation, in response to these allegations.

I received full access to all the information that I required.

On March 16, 1993, the Minister of Municipal Affairs made a letter public that I had sent to the Chairman of the Board of Directors of Mortgage Properties. In my letter, I reported that the systems used to appoint consultants and senior officials, and to administer

transactions between Mortgage Properties and its directors, officers and employees, needed improvement. However, I noted that there was no evidence of fraud, non-compliance with statutory requirements, or irregularities in tendering procedures.

The following deficiencies were identified during the examination:

- The conflict of interest policy adopted by Mortgage Properties did not require directors and officers to disclose the business and investment interests of their immediate family members. The policy required that all directors, officers and employees disclose in writing to the Chairman only their own interests, investments and investment dealings.

- The Chief Operating Officer's position was not advertised. Instead, the Chairman interviewed several candidates personally known to him. The Board of Directors interviewed only one candidate prior to making the appointment.

- The Board of Directors selected certain external consultants based on the Chairman's prior knowledge of their work. The system did not allow for other suitably qualified consultants to be considered.

In the letter to the Chairman of the Board of Directors at the conclusion of the examination, it was recommended that:

- the disclosure requirements of Mortgage Properties' conflict of interest policy be extended to include the interests of immediate family members of all directors and officers of Mortgage Properties;

- a copy of the disclosure statements be submitted to the Board of Directors of Alberta Mortgage and Housing Corporation;

- all proposed transactions with parties related to directors, officers or employees of Mortgage Properties be referred to the Board of Directors of the parent corporation for approval;

- Mortgage Properties consider using the expertise of the Personnel Administration Office to short-list suitably qualified candidates for appointments to senior positions; and that

- the system to appoint consultants be improved.

In reply to my letter, the Deputy Minister of Municipal Affairs and Acting President of Alberta Mortgage and Housing Corporation outlined new policies and procedures governing the operation of

Municipal Affairs - Sales Limited (formerly Mortgage Properties Inc.). These policies and procedures satisfactorily deal with my concerns.

Other entities

Financial audits of the following were also completed:

Improvement Districts' Trust Account
- year ended December 31, 1992

Special Areas Trust Account - year ended December 31, 1992

Department of Public Works, Supply and Services
year ended March 31, 1993

None of the matters reported to management at the conclusion of the Department's annual financial audit were selected for inclusion in this report.

Other entity

A financial audit of the **Public Works, Supply and Services Revolving Fund** was also completed for the year ended March 31, 1993.

Department of Transportation and Utilities
year ended March 31, 1993

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used by the Department to manage its land holdings.
- An examination of the systems used by the Department to determine operating costs associated with the rural gas distribution program.

Land management information

The Department lacks information on the land it administers.

The Department administers a significant amount of land. The land is used for roads, airports, gravel pits, and some is needed for future development. It also administers land surplus to its needs. Without land information, it is not possible for the Department to quantify its holdings and to establish the value of its surplus land.

Records of land holdings are not available and existing land information is fragmented. Information to determine land location, planned use, and surplus parcels is not easily available. An audit review of land parcels administered by the Department indicated many instances where there was no information on whether land held was required for future construction or could be disposed of. Some of these land parcels appeared to be surplus land.

In order to identify land parcels it administers, the Department is planning to obtain the computer records of other agencies. However, because the records of other agencies will not always satisfactorily identify Departmental land, the Department's system may not become a complete record of the land holdings it administers. Also, changes will be required to the Department's computer system to process any data held by these agencies in a graphic format.

The Department needs to maintain relevant information on land administered. Appropriate land information should include the current and expected use of the land, rental information and associated expenses. This information would allow the Department to assess its land requirements, to determine the best use of vacant land, to reduce staff costs required to manually search documents when responding to queries, and to facilitate disposal of surplus land.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department improve its systems to manage its land holdings.

Computer system development budgets

In my 1991-92 annual report (page 149), I recommended that the Department improve its estimates of cost and benefit relationships for new computer systems.

The Department has now planned cost-benefit and post-implementation review procedures which resolve my concerns. My staff will review these procedures during future audits.

Gravel acquisitions

In my 1991-92 annual report (page 150), I recommended that the Department ascertain whether all gravel acquisitions are based on identified needs.

The Department has since determined the need for each of its gravel stockpiles. As of July 31, 1993, the Department had stockpiled gravel costing approximately $52.5 million. Of this total, approximately $3.6 million has been classified as surplus to needs.

My recommendation has been satisfactorily implemented.

Costs of rural gas distribution program

The Department's costs to provide natural gas service to its customers are not recovered in the rates that are set annually.

The Department, through the Gas Alberta Operating Fund, purchases natural gas, arranges for its delivery from the field, and sells it to rural gas co-operatives at a single wholesale gas rate. The selling price is set annually and is determined so as to recover the estimated costs to be paid by the Fund in the following year. The customers who purchase the natural gas believe that they are paying the full cost of the program.

The costs of delivering the rural gas distribution program are paid by the Gas Alberta Operating Fund as well as by the Department. Only those costs, amounting to approximately $29 million during 1992-93, that are paid directly by the Fund are recovered in the rate-setting process. Costs incurred by the Department are not recovered from the Fund's customers.

Rural gas distribution program costs not paid by the Fund and therefore not recovered from its customers are estimated to be at least $9 million annually. These costs include grants to gas co-operatives for construction of pipelines, amortization of gas pipelines owned by the Department, interest costs on funds advanced from the General Revenue Fund, and certain administration costs such as utility support services.

The Department needs to fully cost its rural gas distribution program. It will then be able to adjust, if necessary, the rates charged to Gas Alberta Operating Fund customers and to recover the full cost of this program. Any costs that are not recovered should be reported as a contribution to this program.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Department of Transportation and Utilities - Costs of rural gas distribution program

Recommendation No. 46

It is recommended that the Department of Transportation and Utilities determine the full cost of its rural gas distribution program and use this information in determining rates to be charged to its customers.

Transportation Revolving Fund
year ended March 31, 1993

Use of a revolving fund

The Department of Transportation needs to assess whether the Transportation Revolving Fund is economically satisfying its procurement needs.

In my 1991-92 annual report (page 151), I recommended that the Department determine whether the Transportation Revolving Fund meets the Department's needs for the procurement of supplies and materials. I made this recommendation because the purpose of the Revolving Fund's purchasing and inventory functions is not clear.

The Department operates the Transportation Revolving Fund to purchase certain goods and services and to maintain an inventory for its future needs.

In 1992-93, the Department paid $25 million (1991-92 $39 million) for construction, maintenance and other materials, excluding asphalt, gravel and land. These purchases included supplies and materials bought directly from external vendors as well as through the Revolving Fund. Procurement through the Revolving Fund amounted to $10 million (1991-92 $14 million).

I continue to hold the view that the Department should assess whether it is cost effective to use the Transportation Revolving Fund for the management of its supplies and materials inventories. Identical inventory items are being acquired directly from external

vendors and from the Revolving Fund. Some of these items are acquired by the Department from the same vendors as used by the Revolving Fund.

The Department has initiated a materials management improvement project in response to my recommendation. The initial step involves an in-depth review of materials management for six major product groups. Due to staff reductions, the project is proceeding slowly, and has not yet focused directly on my concern. The reasonableness of paying administration costs to maintain a Revolving Fund if other cheaper and more effective methods of acquisition exist needs to be carefully considered by the Department.

In a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

> Department of Transportation and Utilities - Use of a revolving fund
>
> **Recommendation No. 47**
>
> It is recommended that the Department of Transportation and Utilities determine whether the Transportation Revolving Fund meets the Department's needs for the procurement of supplies and materials.

Alberta Resources Railway Corporation
year ended December 31, 1992

Reservation of opinion

The Auditor's Report on the financial statements of the Alberta Resources Railway Corporation for the year ended December 31, 1992 contained a reservation of opinion as follows:

"Under the terms of an Agreement between Canadian National Railway and the Corporation, Canadian National Railway is required to pay a tonnage rental to the Corporation based on the amount of revenue freight carried over the Corporation's railway. The Corporation relies on reports by Canadian National Railway as to the nature and amount of revenue freight to determine the tonnage rentals payable under the Agreement and has been satisfied that there is no economical means available to check the accuracy of such reports. Accordingly, my verification of tonnage rental revenue of $6,134,306 was limited to the amounts reported to the Corporation and I was not able to determine whether any adjustments might be necessary to tonnage rental revenue, operating loss, assets and liabilities."

This reservation of opinion was necessary because the scope of my audit was limited. Tonnage rental revenue represents a significant portion of the Corporation's operating revenue. Audit evidence, similar to that used to support the tonnage rental revenue for the previous year, was not available. In the previous year, the Corporation produced suitable audit evidence, based on an examination of Canadian National Railway's records, to support the completeness of its tonnage rental revenue.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1993:

Gas Alberta Operating Fund
Rural Electrification Revolving Fund

Legislative Assembly Office
year ended March 31, 1993

None of the matters reported to management at the conclusion of the annual financial audit were selected for inclusion in this report.

Other entities

The financial transactions for the year ended March 31, 1993 of the following are included in the General Revenue Fund:

Office of the Auditor General
Office of the Chief Electoral Officer
Office of the Ethics Commissioner
Office of the Ombudsman

The financial statement of the Office of the Auditor General for the year ended March 31, 1993, was audited by a firm of Chartered Accountants appointed by the Standing Committee on Legislative Offices. The financial statement is published in section 5 of Volume 2 of the Public Accounts of the Province.

The irrigation districts are independently incorporated with no direct accountability to the Legislative Assembly. Therefore, their audited financial statements are not published in the Public Accounts of the Province.

The financial statements of the fourteen irrigation districts were audited to various year-ends within the 1992-93 fiscal year:

Aetna Irrigation District
Bow River Irrigation District
Eastern Irrigation District
Leavitt Irrigation District
Lethbridge Northern Irrigation District
Macleod Irrigation District
Magrath Irrigation District
Mountain View Irrigation District
Raymond Irrigation District
Ross Creek Irrigation District
St. Mary River Irrigation District
Taber Irrigation District
United Irrigation District
Western Irrigation District

Pursuant to section 12(b) of the Auditor General Act, the Auditor General may, with the approval of the Standing Committee on Legislative Offices, be appointed auditor of organizations other than Provincial departments, funds and agencies. For accounting periods ended within the 1992-93 fiscal year, the Auditor General acted as auditor of the following organizations:

Alberta Children's Hospital Research Centre
Charles Camsell Provincial General Hospital Volunteer Association
Foothills Hospital Employees' Charity Fund
Foothills Hospital Foundation
Grande Prairie Regional College Foundation
Olds College Foundation
Sulphur Development Institute of Canada (SUDIC)
The Friends of University Hospitals
The Trustees of the Academic Staff Benefits Plans of The University of Alberta
University of Alberta Hospitals Staff Benevolent Fund
University of Alberta Hospitals Staff Charities Fund

Financial statements

My reports on two financial statements contained reservations of opinion because they receive donation revenue which is not susceptible of complete audit verification. The organizations were as follows:

Grande Prairie Regional College Foundation, and
Olds College Foundation

Reporting Process

The audit observations and recommendations contained in this report have undergone a rigorous process aimed at providing all concerned with opportunities to challenge or provide input.

At the conclusion of all audits, meetings (exit conferences) were held to discuss audit findings and concerns. The matters discussed depended on the nature of the audit, but included typically the form and content of financial statements, valuation provisions and allowances, the accounting policies employed, recommendations for systems improvements, and observed instances of non-compliance with legislative authorities. These meetings were attended by representatives of the Audit Office and senior financial and other management officials of the audited entities.

The main purposes of these meetings were to ensure that senior management understood the audit findings, to discuss recommendations for corrective action, and to provide opportunities for management comment and reaction before the audited financial statements and the letter to management were issued. Minutes of these meetings were prepared and circulated by the Audit Office, thereby minimizing the risk of misunderstandings concerning matters discussed.

Audit recommendations judged to be of concern to management were incorporated into management letters to the responsible deputy minister or senior executive officer. Copies of management letters were forwarded to the appropriate minister, except for those addressed to Provincial agencies referred to in section 2(5) of the Financial Administration Act.

Subsequently, recommendations considered important enough to be reported to the Legislative Assembly were selected for inclusion in this report. When determining significance, I take into account the nature and materiality of the matter relative to the individual entity and the government as a whole.

Finally, before this annual report was published it was made available to the Audit Committee. Also, all ministers and deputy ministers or chief executive officers were informed of observations contained in the report that relate to areas for which they are responsible.

The Provincial Treasurer on behalf of the government has prepared a report, dated May 10, 1993, addressed to the Standing Committee on Public Accounts which contains responses to the numbered recommendations in my report for the 1991-92 fiscal year.

Reservations In Audit Reports On Financial Statements

Section 19(2) of the Auditor General Act requires the Auditor General to provide details in his annual report of reservations of opinion in reports issued on financial statements. This report shows that 21 such reservations were issued; viz:

Eleven reservations of opinion were because the financial statements of:

- Alberta College of Art
- Grant MacEwan Community College
- Keyano College
- Lakeland College
- Lethbridge Community College
- Medicine Hat College
- Mount Royal College
- Northern Alberta Institute of Technology
- Olds College
- Red Deer College
- Southern Alberta Institute of Technology

are not prepared in accordance with generally accepted accounting principles in that vacation pay is not accrued. This matter is discussed more fully on page 47.

Nine reservations of opinion were because the financial statements of:

- Alberta Cancer Foundation,
- Alberta Resources Railway Corporation,
- Charles Camsell Provincial General Hospital Foundation,
- Children's Health Foundation of Northern Alberta,
- Grande Prairie Regional College Foundation,
- Mount Royal College Foundation
- Olds College Foundation,
- Tire Recycling Management Board, and
- University Hospitals Foundation

include revenue which could not be audited for completeness in accordance with generally accepted auditing standards.

One reservation of opinion was because, as discussed more fully on page 64, the financial statements of the Alberta Agricultural Development Corporation are not prepared in accordance with generally accepted accounting principles.

In all other cases, I was able to report without a reservation of opinion.

My 1991-92 annual report noted on page 144 that a financial audit had been completed for Chembiomed Ltd. for the year ended March 31, 1991. I should have stated that my Auditor's Report contained a reservation of opinion because no write down had been made for the significant decline in value of certain assets.

Section 18 Report

Section 18 of the Auditor General Act requires that I report to the Legislative Assembly on the financial statements of the Crown for each fiscal year. The report is to include an opinion on the financial statements, and a statement as to whether they are on a basis consistent with that of the preceding fiscal year. Also, I am to provide my reasons for giving any reservation of opinion, and any other comments related to my audit of the financial statements.

Opinion on the financial statements

My Auditor's Report to the Members of the Legislative Assembly on the financial statements of the Crown for the year ended March 31, 1993, is attached to the consolidated financial statements and reads:

"I have audited the consolidated statement of assets, liabilities and net debt of the Province of Alberta as at March 31, 1993 and the consolidated statements of revenue and expenditure, changes in net debt and changes in financial position for the year then ended. These financial statements are the responsibility of Treasury Department management. My responsibility is to express an opinion on these financial statements based on my audit.

"I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

"In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Province of Alberta as at March 31, 1993 and the results of its operations, the changes in its net debt and the changes in its financial position for the year then ended in accordance with the disclosed basis of

accounting as described in Note 1 to the consolidated financial statements. As required by the Auditor General Act, I report that, in my opinion, the disclosed basis of accounting has been applied, after giving retroactive effect to the changes in accounting policies without restatement as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year."

The Auditor's Report was dated August 17, 1993.

Public Accounts

Audit

The Public Accounts of the Province are published in three volumes:

Volume 1 - Consolidated Financial Statements of the Province of Alberta

Volume 2 - Financial Statements of the General Revenue Fund, Revolving Funds and Regulated Funds

Volume 3 - Financial Statements of Provincial Agencies, Commercial Enterprises and Crown-controlled Corporations

All of the information in the Public Accounts is covered by Auditor's Reports with the following exceptions:

Section 2 of Volume 2 contains details of General Revenue Fund expenditure and revenue for each department. I have not expressed an audit opinion on this information. The information is extracted from the General Revenue Fund's financial records which were audited for the purpose of expressing an opinion on the General Revenue Fund financial statements. The audit opinion on the General Revenue Fund financial statements explains that the work done was sufficient to obtain reasonable assurance whether the financial statements as a whole were free of material misstatement. The work was not intended to obtain assurance as to whether the information contained in individual departmental statements in section 2 of Volume 2 was free of material misstatement.

Section 5 of Volume 2 contains supplementary information required by legislation or by direction of the Provincial Treasurer. The Auditor General has not expressed an audit opinion on this information. The section includes the Report of the Auditors of the Office of the Auditor General. With respect to the other supplementary information, the Audit Office has considered whether any of the detailed information is inconsistent with the audited information in the Public Accounts, but has not performed work to

provide assurance as to the accuracy or completeness of the detail provided.

Consolidated financial statements

The 1992-93 consolidated financial statements report on the Province's financial condition and results of operations.

The consolidated financial statements are an aggregation of most, but not all, of the entities controlled by the Province of Alberta. They combine the operating results, financial positions and cash flows of all the entities whose financial statements are published in Volumes 2 and 3 of the Public Accounts, including for example, the General Revenue Fund and the Alberta Heritage Savings Trust Fund. The consolidation, however, does not include the Provincially-owned universities, colleges, technical institutes, hospitals and related funds.

Analytical information

This annual report does not contain the consolidated operating statistics traditionally included at this point in section 3. As explained below, the government has correctly assumed the responsibility to provide such information to Albertans.

For several years, the annual report of the Auditor General has included consolidated Provincial operating statistics. The purpose of this information was to illustrate and explain some of the more significant variances and trends in the Province's consolidated revenue and expenditure. Also, the intention was to display financial information in a simplified manner. The reason the Audit Office reported this information was that the government had not supplemented the Public Accounts with easy to understand explanations.

In April 1993, the government accepted the Alberta Financial Review Commission recommendation that it should issue an annual report to Albertans containing user-friendly financial information. The Commission had noted that such a report would "contain much of the analytical information currently found in Section 3 of the Auditor General's report."

The 1992-93 consolidated financial statements were accompanied by "An Overview" which simplified the detailed information contained in the statements and provided explanations of what the numbers meant.

Legislative Mandate

The Office of the Auditor General of Alberta was established in 1978 and operates in accordance with the Auditor General Act. As Auditor General, I am the auditor of all government departments, funds containing public money, and Provincial agencies.

The Act deals with my responsibilities as Auditor General by stating what I must and can report, to whom, and when.

Section 18 reports

In section 18 reports I state whether, in my opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown.

The section 18 report on the Province's 1992-93 consolidated financial statements is reproduced on page 173 of this report. Similar reports were issued on the financial statements of all entities of which I am the auditor. These reports are attached to the related financial statements, most of which are published in the Public Accounts of the Province.

Section 19 reports

The report you are reading is my section 19 report for 1992-93. Section 19 reports are annual reports to the Legislative Assembly on the work of my Office. These reports include audit observations and recommendations arising from that work, together with any other matters that I believe should be brought to the attention of the Legislative Assembly.

Section 17 reports

Under section 17 of the Auditor General Act, the Legislative Assembly or the Executive Council may ask me to perform special duties. Whether those duties result in reports, and to whom the reports are issued, depends on the terms of the request. During the 1992-93 fiscal year, I received one request to perform a special duty under section 17.

On May 21, 1992, pursuant to section 17(2) of the Auditor General Act, the President of the Executive Council requested that I review the financial affairs of NovAtel Communications Ltd. and the Province of Alberta with respect to The Alberta Government Telephones Commission's investment in NovAtel. I reported to the President of the Executive Council and also made my report on NovAtel public on September 25, 1992.

Section 20 reports

I can report under section 20 to the Legislative Assembly on any matters of importance or urgency which, in my opinion, should not be delayed until my next annual report.

No reports have been issued under section 20 of the Act since my last annual report.

Section 28 reports

Reports issued under section 28 of the Act are known as management letters. The purpose of management letters, as explained more fully on page 171 of this report, is to communicate to management recommendations for improving financial administration.

Management letters are addressed to the deputy minister or senior executive officer of the audited entity. A copy is sent to the minister responsible for the entity except for those Provincial agencies referred to in section 2(5) of the Financial Administration Act.

Types of audit

Throughout section 2 of this report, the term "financial audit" is used. In this context, a financial audit encompasses:

- audit procedures considered necessary to support the expression of an opinion on financial statements,
- a review of action taken in response to previous audit observations and recommendations, including those reported to the Legislative Assembly, and
- an examination of transactions and activities examined for other auditing purposes to determine whether they comply with the significant financial and administrative authorities that govern them.

For some audit entities, work additional to the financial audit was completed. Such additional work involves examining systems in depth. The scope of the additional audit work undertaken for 1992-93 is identified in section 2 of this report.

All audit findings, conclusions and recommendations arising from all types of audit activity relating to 1992-93 have been reported to management.

Standing Committee on Legislative Offices

Reports issued under section 19 of the Auditor General Act are tabled in the Legislative Assembly by the Chairman of the Standing Committee on Legislative Offices. Members of the Committee on November 10, 1993, the day the Assembly last adjourned were:

Mr. R. Hierath, MLA Chairman
Mr. H. Sohal, MLA Deputy Chairman
Mr. R. Brassard, MLA
Mr. F. Bruseker, MLA
Mr. G. Dickson, MLA
Mr. V. Doerksen, MLA
Mr. G. Friedel, MLA
Mrs. Y. Fritz, MLA
Mr. D. Massey, MLA

The Audit Office continues to have a constructive working relationship with the Committee. I meet with the Committee several times during the year. This allows me to keep the Committee informed of the operations of the Office and to answer questions.

Audit Committee

Before being tabled, my annual reports are made available to an Audit Committee in accordance with section 24 of the Act. The members of the Audit Committee as at the date of this report, all of whom were appointed by Order in Council, are:

Dr. N.E. Wagner Chairman of the Audit Committee
Chairman of the Board
Alberta Natural Gas Company Ltd.
Calgary

Mr. J. Halpin, CA
Partner
Halpin, Anderson, Mayer, Chartered Accountants
Calgary

Mr. B.E. McCook, CA
Senior Vice-President
Nelson Lumber Company Ltd.
Lloydminster

Ms. J. Rennie, CA
President, Prairie and NWT Region
Princeton Development Ltd.
Edmonton

Mr. F.R.N. Snell, CA
Partner
Ernst & Young, Chartered Accountants
Calgary

Mr. R.B. Young
Vice-President and Director
Melcor Developments Ltd.
Edmonton

The Hon. J.F. Dinning
Provincial Treasurer of Alberta

I acknowledge the contribution of the Audit Committee.

Mission

The following statement continues to guide the work of the Audit Office:

> **The mission of the Office of the Auditor General of Alberta is to add credibility to the government's financial reporting and to improve the financial administration of the Province.**

Adding credibility

Each set of financial statements included in the Public Accounts reflects management's view of the entity's financial position at year end, the results of its operations and the changes in its financial position.

My responsibility is to bring professional judgment and skill to the examination of these financial statements in order to provide an opinion on them. The result is an Auditor's Report designed to add credibility to the views of management.

The Public Accounts Committee acts on behalf of the Members of the Assembly in examining the government's management and control of public resources. My annual report, and the audited financial statements in the Public Accounts, are used by the Committee in its examination of the use and control of public resources.

Improving financial administration

Audits also assist the process of good accountability by maintaining confidence in financial statements. In other words, auditing supports accountability reports.

In my view the basic requirement of good accountability is good financial administration. For this reason, the Audit Office wants to help the Legislative Assembly, the government and its managers focus on the issues critical to sound financial administration. The Audit Office, therefore, undertakes in-depth examinations of a selection of management control and information systems each year. Increasingly, the focus of these examinations is to stress the importance of management relating costs to outputs in a way that helps assess performance and allocate resources.

The recommendations that arise from this systems auditing, and from financial statement audits, are designed to promote economy and efficiency, and improve reporting. I believe my job is to make recommendations to improve systems so that decision makers are provided with reliable and relevant information.

The change brought about by the successful implementation of these recommendations improves the financial administration of the Province.

Accounting Principles And Auditing Standards

The principal source of generally accepted accounting principles and auditing standards is the Handbook of the Canadian Institute of Chartered Accountants. In addition, the Public Sector Accounting and Auditing Board of the Institute issues accounting and auditing statements. These statements apply to and guide accounting and auditing in the public sector.

Accounting principles

Generally accepted accounting principles is the term used to describe the basis on which financial statements are normally prepared. The term generally accepted accounting principles encompasses not only specific rules, practices and procedures relating to particular circumstances, but also broad principles and conventions of general application. Generally accepted accounting principles are established to encourage the consistent and fair disclosure of financial information.

The financial statements of most of Alberta's Provincial entities are prepared in accordance with generally accepted accounting principles. In the main, the exceptions to generally accepted accounting principles relate to the method of accounting for capital assets.

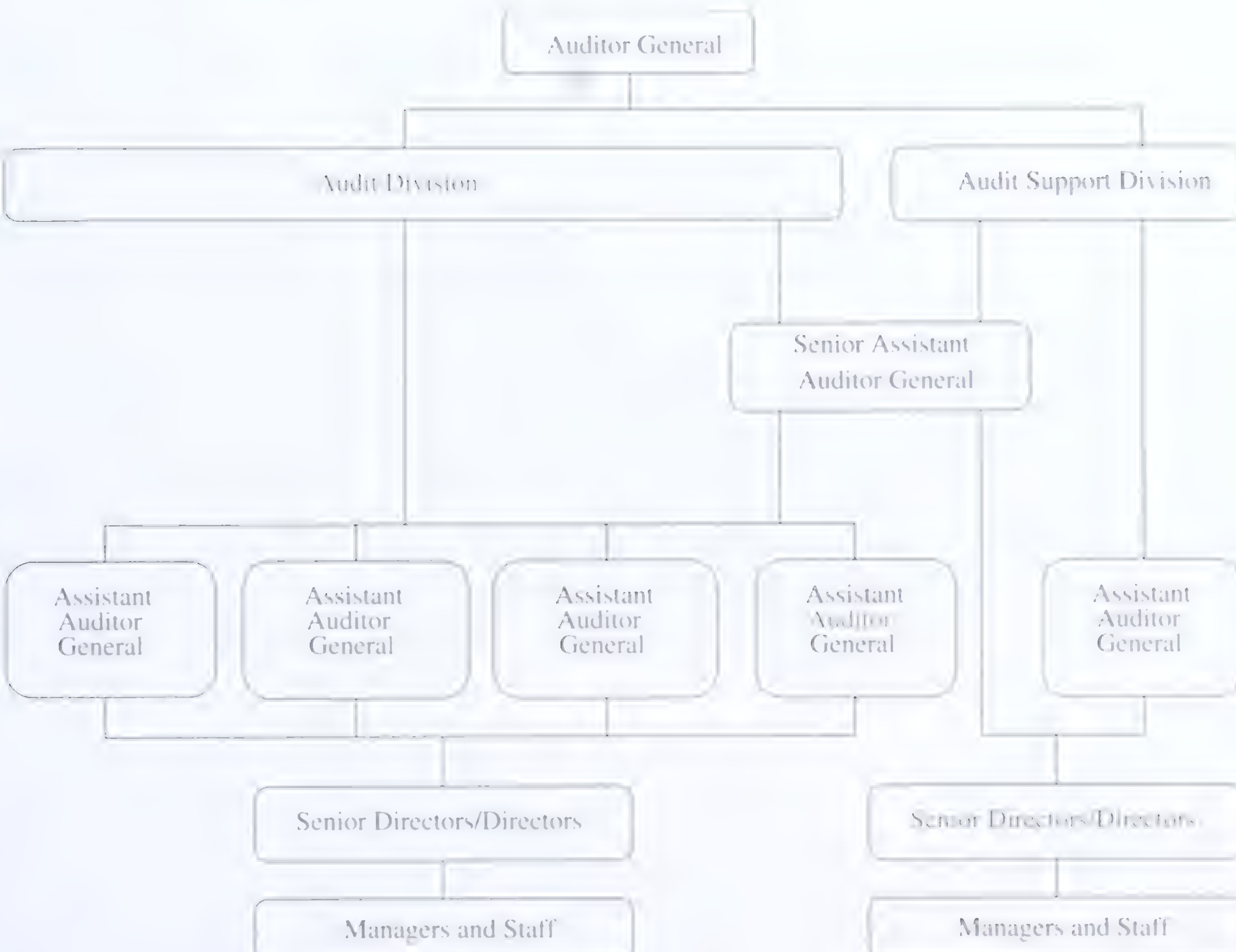
The General Revenue Fund and consolidated financial statements of the Province of Alberta are not prepared in accordance with generally accepted accounting principles. The basis of accounting is explained in a note to the financial statements.

Auditing standards

The work of the Audit Office is carried out in accordance with the auditing standards and recommendations published by the Canadian Institute of Chartered Accountants and its Public Sector Accounting and Auditing Board.

Organization of the Audit Office

The organization of the Audit Office is as follows:



The Management Committee

The Audit Office is administered by the Management Committee whose members are:

Mr. D.D. Salmon, FCA	Auditor General
Mr. A.J.K. Wingate, CA	Senior Assistant Auditor General
Mr. G.C. Cuthbert, CA	Assistant Auditor General
Mr. J.H. Hug, CA	Assistant Auditor General
Mr. M.G. Morgan, CA	Assistant Auditor General
Mr. D.J. Neufeld, CA	Assistant Auditor General
Mr. N. Shandro, CA	Assistant Auditor General

The Audit Division

The Audit Division is jointly administered by the Senior Assistant Auditor General and four Assistant Auditors General.

Each Assistant Auditor General has a team of Senior Directors, Directors, Managers and Senior Auditors who are responsible for a portfolio of audits. The work is done with the assistance of Student Auditors who are pursuing professional accounting designations.

The Audit Support Division

The Audit Support Division is jointly administered by the Senior Assistant Auditor General and an Assistant Auditor General.

The Audit Support Division provides a variety of administrative and audit-related services to the Audit Division. These include coordination of human resource management and professional development, accounting and administration, professional practices, legal advice, computer operations and system development, security, and coordination of the preparation of the Auditor General's annual reports.

Agents

The Audit Office has continued the policy of utilizing the services of firms of private sector chartered accountants. These firms act as my agent under section 10 of the Auditor General Act, and their contributions in supplementing the staff resources of the Audit Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 1993, were as follows:

Arthur Andersen & Co.
Bevan, Halbert, Ginet, Ens & Gerrard
Collins Barrow
Coopers & Lybrand
Dawson, Berezan & Partners
Deloitte & Touche
Doane Raymond
Ernst & Young
Hudson & Company
Johnston, Morrison, Hunter & Co.
Ladell Perry
Matthew Craig Davies Collins
Mills Unrau Gerlock
Peat Marwick Thorne
Price Waterhouse
Young, Parkyn, McNab & Co.
Watkinson, Hanhart, Duda, Dorchak

Audit Office financial statement

The financial statement of the Office of the Auditor General is audited by Kingston Ross Pasnak, Chartered Accountants. The financial statement is included in section 5 of Volume 2 of the Public Accounts of the Province.

AUDITOR GENERAL ACT

CHAPTER A-49

Table of Contents

Definitions 1
Meaning of other words 2
Appointment of Auditor General 3
Resignation of Auditor General 4
Suspension or removal from office 5
Vacancy in office 6
Salary and benefits 7
Acting Auditor General 8
Office of the Auditor General 9
Engagement of services on fee basis 10
Delegation of power or duty 11
Auditor General as auditor 12
Financing of operations 13
Auditor General may charge fees 14
Access to information 15
Right to information 16
Special duties of Auditor General 17
Annual report on financial statements 18
Annual report of Auditor General 19
Special reports 20
Establishment of Audit Committee 21
Meetings of Audit Committee 22
Information re scope and results of audit 23
Availability of reports 24
When report not required 25
Supplementary information 26
Audit working papers 27
Report after examination 28
Advice on organization, systems, etc. 29
Annual audit 30

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

Definitions

1 In this Act,

(a) "Auditor General" means the Auditor General of Alberta;

(b) repealed 1993 c19 s17;

(c) "department" means a department as defined in section 1 of the *Financial Administration Act* and includes

(i) the Legislative Assembly Office,

(ii) the Ombudsman and the staff of the Office of the Ombudsman,

(iii) the Chief Electoral Officer and the staff of the Office of the Chief Electoral Officer and,

(iv) the Ethics Commissioner and the staff of the Office of the Ethics Commissioner;

(d) "employee of the Office of the Auditor General" includes a person engaged on a fee basis by the Auditor General;

(e) "public money" means public money as defined in the *Financial Administration Act* and includes money forming part of the Treasury Branches Deposits Fund;

(f) "regulated fund" means a regulated fund as defined in the *Financial Administration Act* and includes the Treasury Branches Deposits Fund;

(g) "Select Standing Committee" means the Select Standing Committee on Legislative Offices;

(h) "voting share" means a share of any class of shares of a corporation carrying full or limited voting rights ordinarily exercisable at meetings of shareholders of the corporation or a share of any class of shares of a corporation carrying voting rights by reason of a contingency that has occurred and is continuing.

RSA 1980 cA-49 s1;1983 cL-10.1 s57;1991 cC-22.1 s 49;1993 c19 s17

Meaning of other words

2 Except as provided in section 1, words or expressions defined in the *Financial Administration Act* have the same meaning in this Act.

RSA 1980 cA-49 s2

Appointment of Auditor General

3(1) There shall be appointed pursuant to this Act an Auditor General who shall be an officer of the Legislature.

(2) Subject to section 6, the Lieutenant Governor in Council shall appoint the Auditor General, on the recommendation of the Assembly, for a term not exceeding 8 years.

(3) An Auditor General is eligible for reappointment under subsection (2).

RSA 1980 cA-49 s3

Resignation of Auditor General

4 The Auditor General may at any time resign his office by writing addressed to the Speaker of the Assembly or, if there is no Speaker or if the Speaker is absent from Alberta, to the Clerk of the Assembly.

RSA 1980 cA-49 s4

Suspension or removal from office

5 On the recommendation of the Assembly, the Lieutenant Governor in Council may, at any time, suspend or remove the Auditor General from office.

RSA 1980 cA-49 s5

Vacancy in office

6(1) If a vacancy in the office of the Auditor General occurs while the Legislature is in session but no recommendation is made by the Assembly before the close of that session, subsection (2) applies as if the vacancy had occurred while the Legislature was not in session.

(2) If a vacancy occurs while the Legislature is not in session, the Lieutenant Governor in Council, on the recommendation of the Select Standing Committee, may appoint an Auditor General to fill the vacancy and unless his office sooner becomes vacant, the person so appointed holds office until an Auditor General is appointed under section 3, but if an appointment under section 3 is not made within 30 days after the commencement of the next ensuing session, the appointment under this subsection lapses and there shall be deemed to be another vacancy in the office of Auditor General.

RSA 1980 cA-49 s6

Salary and benefits

7(1) The Auditor General shall be paid a salary at a rate set by the Select Standing Committee and the Select Standing Committee shall review that salary rate at least once a year.

(2) The Auditor General shall receive similar benefits as are provided to Deputy Ministers.

RSA 1980 cA-49 s7

Acting Auditor General

8(1) The Auditor General may appoint an employee of the Office of the Auditor General as Acting Auditor General.

(2) If there is neither an Auditor General nor an Acting Auditor General, the Lieutenant Governor in Council may appoint a person as Acting Auditor General to hold office until an Acting Auditor General is appointed under subsection (1).

(3) In the event of the absence or inability to act of the Auditor General, or when there is a vacancy in the office of the Auditor General, the Acting Auditor General has all the powers and shall perform the duties of the Auditor General.

[illegible]

Office of the Auditor General

9(1) There shall be a department of the public service of Alberta called the Office of the Auditor General consisting of the Auditor General and those persons employed pursuant to the *Public Service Act* as are necessary to assist the Auditor General in carrying out his functions under this or any other Act.

(2) On the recommendations of the Auditor General, the Select Standing Committee may order that

(a) any regulation, order or directive made under the *Financial Administration Act*, or

(b) any regulation, order, directive, rule, procedure, direction, allocation, designation or other decision under the *Public Service Act*,

be inapplicable to, or be varied in respect of, the Office of the Auditor General or any particular employee or class of employees in the Office of the Auditor General.

(3) An order made under subsection (2)(a) in relation to a regulation, order or directive made under the *Financial Administration Act* operates notwithstanding that Act.

(4) The *Regulations Act* does not apply to orders made under subsection (2).

(5) The chairman of the Select Standing Committee shall lay a copy of each order made under subsection (2) before the Assembly if it is then sitting or, if it is not then sitting, within 15 days after the commencement of the next sitting.

[illegible]

Engagement of services on fee basis

10 The Auditor General may engage, on a fee basis, any person to act as his agent for the purpose of conducting an audit or examination that the Auditor General is empowered or required to conduct or to perform a service that the Auditor General considers necessary in order to properly exercise or perform his powers and duties.

[illegible]

Delegation of power or duty

11(1) Subject to subsection (2), the Auditor General may delegate to an employee of the Office of the Auditor General any power or duty conferred or imposed on the Auditor General by this or any other Act.

(2) The Auditor General may not delegate a power or duty to report

(a) to the Assembly or a committee of the Assembly, without the consent of the Assembly or the committee to which the report is to be made, or

(b) to the Lieutenant Governor in Council, without the consent of the Lieutenant Governor in Council.

[illegible]

Auditor General as auditor

12 The Auditor General

(a) is the auditor of every department, regulated fund, revolving fund and Provincial agency, and

(b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12

Financing of operations

13(1) The Auditor General shall submit to the Select Standing Committee in respect of each fiscal year an estimate of the sum that will be required to be provided by the Legislature to defray the several charges and expenses of the Office of the Auditor General in that fiscal year.

(2) The Select Standing Committee shall review each estimate submitted pursuant to subsection (1) and, on the completion of the review, the chairman of the Committee shall transmit the estimate to the Treasurer for presentation to the Assembly.

(3) If at any time the Legislative Assembly is not in session the Select Standing Committee, or if there is no Select Standing Committee, the Provincial Treasurer,

(a) reports that the Auditor General has certified that in the public interest, an expenditure of public money is urgently required in respect to any matter pertaining to his office, and

(b) reports that either

(i) there is no supply vote under which an expenditure with respect to that matter may be made, or

(ii) there is a supply vote under which an expenditure with respect to that matter may be made but the authority available under the supply vote is insufficient,

the Lieutenant Governor in Council may order a special warrant to be prepared to be signed by himself authorizing the expenditure of the amount estimated to be required.

(4) When the Legislative Assembly is adjourned for a period of more than 14 days then, for the purposes of subsection (3), the Assembly shall be deemed not to be in session during the period of the adjournment.

(5) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(i), the authority to spend the amount of money specified in the special warrant for the purpose specified in the special warrant is deemed to be a supply vote for the purposes of the *Financial Administration Act* for the fiscal year in which the special warrant is signed.

(6) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(ii), the authority to spend the amount of money specified in the special warrant is, for the purposes of the *Financial Administration Act,* added to and deemed to be part of the supply vote to which the report relates.

(7) When a special warrant has been prepared and signed pursuant to this section, the amounts authorized by it are deemed to be included in, and not to be in addition to, the amounts authorized by the Act, not being an Act for interim supply, enacted next after it for granting to Her Majesty sums of money to defray certain expenditures of the Public Service of Alberta.

RSA 1980 cA-49 s13;1983 cL-10.1 s57

Auditor General may charge fees

14 The Auditor General may charge fees for professional services rendered by his Office on a basis approved by the Select Standing Committee.

RSA 1980 cA-49 s14

Access to information

15(1) The Auditor General is entitled to access at all reasonable times to

(a) the records of a department, fund administrator or Provincial agency, and

(b) electronic data processing equipment owned or leased by a department, fund administrator or Provincial agency,

for any purpose related to the exercise or performance of his powers and duties under this or any other Act.

(2) A public employee, public official or personal service contractor shall give to the Auditor General any information, reports or explanations that the Auditor General considers necessary to enable him to exercise or perform his powers and duties under this or any other Act.

(3) The Auditor General may station in the offices of any department, fund administrator or Provincial agency, any employee of the Office of the Auditor General for the purpose of enabling the Auditor General to more effectively exercise or perform his powers and duties under this or any other Act, and the department, fund administrator or Provincial agency shall provide the necessary office accommodation for an employee so stationed.

(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

[illegible]

Right to information

16(1) If the accounts of a Crown-controlled organization are audited other than by the Auditor General, the person performing the audit shall

(a) deliver to the Auditor General immediately after completing the audit a copy of the report of his findings and his recommendations to management and a copy of the audited financial statements of the Crown-controlled organization,

(b) make available immediately to the Auditor General on his request all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the Crown-controlled organization specified in the request, and

(c) provide immediately to the Auditor General on his request a full explanation of the work performed, tests and examinations made and the results obtained, and any other information within the knowledge of the person in respect of the Crown-controlled organization.

(2) If any information, explanation or document required to be delivered to or requested by the Auditor General under subsection (1) is not delivered, made available or provided to him or if the Auditor General is of the opinion that any information, explanation or document that is delivered, made available or provided to him pursuant to subsection (1) is not adequate to permit him to exercise or perform his powers and duties under this or any other Act, the Auditor General may make any additional examination or investigation of the records and operations of the Crown-controlled organization that he considers necessary.

[illegible]

Special duties of Auditor General

17(1) The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of his powers and duties under this or any other Act.

[illegible]

Annual report on financial statements

18(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

(a) include a statement as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles, and as to whether they are on a basis consistent with that of the preceding fiscal year,

(b) when the report contains a reservation of opinion by the Auditor General, state his reasons for that reservation and indicate the effect of any deficiency on the financial statements, and

(c) include any other comments related to his audit of the financial statements that he considers appropriate.

1977 c56 s18

Annual report of Auditor General

19(1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

(a) on the work of his office, and

(b) on whether, in carrying on the work of his office, he received all the information, reports and explanations he required.

(2) A report of the Auditor General under subsection (1) shall include the results of his examinations of the organizations of which he is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which he has observed that

(a) collections of public money

(i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts,

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote, Heritage Fund vote or relevant Act,

(ii) have not complied with regulations, directives or orders applicable to those disbursements, or

(iii) have not been properly reflected in the accounts,

(c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,

(d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or

(e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that he considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1) the Auditor General may

(a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which he is the auditor on any matter contained in them and on

(i) the accounting policies employed, and

(ii) whether the substance of any significant underlying financial matter that has come to his attention is adequately disclosed,

(b) include summarized information and the financial statements of an organization on which he is reporting or summaries of those financial statements, and

(c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(4) The annual report shall be presented by the Auditor General to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(5) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in his opinion, have been or are being rectified.

[illegible]

Special reports

20(1) The Auditor General may prepare a special report to the Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report under section 19.

(2) A report prepared pursuant to this section shall be presented to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

[illegible]

Establishment of Audit Committee

21(1) There is hereby established a committee called the Audit Committee consisting of not more than 7 persons appointed as members of the Committee by the Lieutenant Governor in Council.

(2) The Lieutenant Governor in Council shall designate one of the members of the Audit Committee as chairman.

(3) The Lieutenant Governor in Council may authorize, fix and provide for the payment of remuneration and expenses to the members of the Audit Committee.

[illegible]

Meetings of Audit Committee

22(1) The Audit Committee may make rules, not inconsistent with this Act, respecting the calling of, and the conduct of business at, its meetings.

(2) The chairman of the Audit Committee shall, on request of the Auditor General, call a meeting of the Audit Committee to review any matter that the Auditor General considers should be brought to the attention of the Audit Committee.

1977 c56 s22

Information re scope and results of audit

23 The Auditor General shall give to the Audit Committee any information that he considers reasonable and appropriate to enable the Audit Committee to advise the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of departments, regulated funds, revolving funds, Provincial agencies and Crown-controlled organizations.

[illegible]

Availability of reports

24 An annual report of the Auditor General and any special report made under section 20 shall be made available to the Audit Committee before it is presented to the chairman of the Select Standing Committee.

1977 c56 s24

When report not required

25 In a report made under this or any other Act the Auditor General need not report on matters that are, in his opinion, immaterial or insignificant.

1977 c56 s25

Supplementary information

26 The Auditor General shall, at the request of a select standing committee of the Assembly engaged in reviewing financial statements of the Crown or an organization of which he is the auditor, attend the meetings of the committee in order to give supplementary information to the committee respecting the financial statements or a report of the Auditor General.

1977 c56 s26

Audit working papers

27 Audit working papers of the Office of the Auditor General shall not be tabled in the Legislative Assembly or before a Committee of the Legislative Assembly.

1977 c56 s27

Report after examination

28 The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in his examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Treasurer of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Treasurer's powers and duties.

1977 c56 s28

Advice on organization, systems, etc.

29 The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which he is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.

1977 c56 s29

Annual audit

30(1) The Select Standing Committee shall appoint an auditor to audit the receipts and disbursements of the Office of the Auditor General.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the receipts and disbursements of the Office of the Auditor General as the Auditor General has or performs in relation to an audit of the receipts and disbursements of a department.

(3) An auditor appointed under subsection (1) shall report the results of his audit annually to the Select Standing Committee.

(4) A report made under this section shall be presented to the chairman of the Select Standing Committee and to the Treasurer for inclusion in the public accounts.

1977 c56 s30

INDEX OF ENTITIES

391760 Alberta Ltd. 41
473654 Alberta Ltd. 41
496072 Alberta Ltd. 41
540540 Alberta Ltd. 95
Aetna Irrigation District 167
Alberta Agricultural Development Corporation 64
Alberta Agricultural Research Institute 73
Alberta Alcohol and Drug Abuse Commission 22
Alberta Cancer Board 143
Alberta Cancer Foundation 142
Alberta Capital Fund 41
Alberta Children's Hospital Research Centre 169
Alberta Children's Provincial General Hospital 143
Alberta College of Art 57
Alberta Dairy Control Board 73
Alberta Educational Communications Corporation, The 16
Alberta Electric Energy Marketing Agency 95
Alberta Environmental Research Trust 101
Alberta Family Life and Substance Abuse Foundation 76
Alberta Foundation for the Arts 76
Alberta General Insurance Company, The 41
Alberta Government Telephones Commission, The 41
Alberta Hail and Crop Insurance Corporation 66
Alberta Heritage Foundation for Medical Research 83
Alberta Heritage Foundation for Medical Research Endowment Fund 41
Alberta Heritage Savings Trust Fund 38
Alberta Heritage Scholarship Fund 41
Alberta Historical Resources Foundation, The 76
Alberta Hospital Edmonton 143
Alberta Hospital Edmonton Foundation 143
Alberta Hospital Ponoka 143
Alberta Insurance Council 38
Alberta Intermodal Services Ltd. 83
Alberta Liquor Control Board 22
Alberta Microelectronic Centre 55
Alberta Mortgage and Housing Corporation 153
Alberta Motion Picture Development Corporation 83
Alberta Multiculturalism Fund 76
Alberta Municipal Financing Corporation 41
Alberta Oil Sands Technology and Research Authority 89
Alberta Opportunity Company 80
Alberta Petroleum Marketing Commission 95
Alberta Racing Commission 22
Alberta Research Council 82
Alberta Resources Railway Corporation 162
Alberta Special Waste Management Corporation 101
Alberta Sport Council 76
ARCA Investments Inc. 41
Arctic Institute of North America, The 56
Athabasca University 53
Banff Centre for Continuing Education, The 54
Bow River Irrigation District 167
Calgary Area Hospital Advisory Council Fund 143

INDEX OF ENTITIES

Charles Camsell Provincial General Hospital 143
Charles Camsell Provincial General Hospital Foundation 142
Charles Camsell Provincial General Hospital Volunteer Association 169
Chembiomed Ltd. 77
Children's Health Centre of Northern Alberta 143
Children's Health Foundation of Northern Alberta 141
Consolidated Cash Investment Trust Fund 41
Consolidated Financial Statements of the Province 24
Credit Union Deposit Guarantee Corporation 41
Culture and Multiculturalism Revolving Fund 76
Department of Advanced Education and Career Development 45
Department of Agriculture, Food and Rural Development 63
Department of Community Development 75
Department of Economic Development and Tourism 77
Department of Education 85
Department of Energy 89
Department of Environmental Protection 97
Department of Executive Council 16
Department of Family and Social Services 103
Department of Federal and Intergovernmental Affairs 121
Department of Health 123
Department of Justice 145
Department of Labour 151
Department of Municipal Affairs 153
Department of Public Works, Supply and Services 157
Department of Transportation and Utilities 159
Eastern Irrigation District 167
Edmonton Region Health Facilities Planning Council 143
Education Revolving Fund 87
Energy Resources Conservation Board 95
Environment Council of Alberta 101
Fairview College 57
Farm Credit Stability Fund 41
Foothills Hospital Employees' Charity Fund 169
Foothills Hospital Foundation 169
Foothills Provincial General Hospital 143
Forestry, Lands and Wildlife Revolving Fund 98
Friends of University Hospitals, The 169
Gas Alberta Operating Fund 163
General Revenue Fund 30
Glenbow-Alberta Institute 75
Glenrose Rehabilitation Hospital 143
Government House Foundation, The 76
Grande Prairie Regional College 58
Grande Prairie Regional College Foundation 169
Grant MacEwan Community College 62
Grant MacEwan Community College - Community Enrichment Project 62
Grant MacEwan Community College Day Care Centre 62
Health Care Insurance Fund 139
Historic Resources Fund 76
Improvement Districts' Trust Account 155
Irrigation Land Manager 73
Joint Standards Directorate 151

INDEX OF ENTITIES

Keyano College 58
Lakeland College 60
Land Purchase Fund 41
Laser Institute, The 55
Leavitt Irrigation District 167
Legislative Assembly Office 165
Lethbridge Community College 62
Lethbridge Northern Irrigation District 167
Lottery Fund 17
Macleod Irrigation District 167
Magrath Irrigation District 167
Medicine Hat College 62
Metis Settlements Transition Commission 22
Metis Settlements Transition Fund 22
Mortgage Properties Inc. 153
Mount Royal College 62
Mount Royal College Day-Care Society 62
Mount Royal College Foundation 62
Mountain View Irrigation District 167
Natural Resources Conservation Board 101
NFI Finance, Inc. 41
Northern Alberta Institute of Technology 60
Northern Lite Canola Inc. 73
Northland School Division No. 61 87
Office of the Auditor General 165
Office of the Chief Electoral Officer 165
Office of the Ethics Commissioner 165
Office of the Ombudsman 165
Olds College 61
Olds College Foundation 169
Pension Fund 41
Pension Plan Administration Fund 41
Province of Alberta Investment in Syncrude Project 95
Provincial Judges and Masters in Chambers Pension Fund 39
Public Colleges Foundation of Alberta 62
Public Utilities Board 95
Public Works, Supply and Services Revolving Fund 157
Raymond Irrigation District 167
Recreation, Parks and Wildlife Foundation, The 75
Red Deer College 61
Ross Creek Irrigation District 167
Rural Electrification Revolving Fund 163
SC Financial Ltd. 41
SC Properties Ltd. 41
School Foundation Program Fund 87
Small Business Term Assistance Fund 41
Southern Alberta Institute of Technology 62
Special Areas Trust Account 155
St. Mary River Irrigation District 167
Students Loan Fund 52
Sulphur Development Institute of Canada (SUDIC) 169
Taber Irrigation District 167
Take-Or-Pay Costs Sharing Fund 95

Teachers' Retirement Fund 87
Telecommunications Research Laboratories 55
Tire Recycling Management Board 99
Tourism Education Fund 78
Tourism, Parks and Recreation Revolving Fund 79
Transportation Revolving Fund 161
Treasury Branches Deposits Fund 39
Treasury Department 31
Treasury Revolving Fund 41
Trust Funds 42
Trustees of the Academic Staff Benefits Plans of The University of Alberta, The 169
United Irrigation District 167
University Hospitals Board 143
University Hospitals Foundation 142
University of Alberta (1991) Foundation, The 55
University of Alberta Hospitals Staff Benevolent Fund 169
University of Alberta Hospitals Staff Charities Fund 169
University of Alberta, The 55
University of Calgary Foundation, The 56
University of Calgary, The 56
University of Lethbridge Foundation, The 56
University of Lethbridge, The 56
University Technologies International Inc. 56
Water Resources Revolving Fund 101
Western Irrigation District 167
Wild Rose Foundation, The 22
Workers' Compensation Board, The 19